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**Transportation: Growing
Field For Entrepreneurs**

**Innovative Ways
To Raise Capital**

**The Goals Of Congress'
Small Business Members**

1993 Small Business Outlook

*Sluggish growth will continue—
along with the risk of yet another
downturn by year's end.*



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PHOTO: STERRY AWE

President-elect Clinton set the tone for economic action in meeting with Senate Majority Leader Mitchell, House Majority Leader Gephardt, Senate Minority Leader Dole, House Speaker Foley, and House Minority Leader Michel. Cover Story, Page 16.



PHOTO: LUCY ZICH

Confrontation can be a useful negotiating tool for women, says attorney Laurel G. Bellows. Women In Business, Page 60.

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A good start—with sluggish growth by year's end—is the economic outlook for 1993. But some find hope for improvement in the coming Clinton administration.

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Editor's Note

It's Not "Grim," But It's Not Great

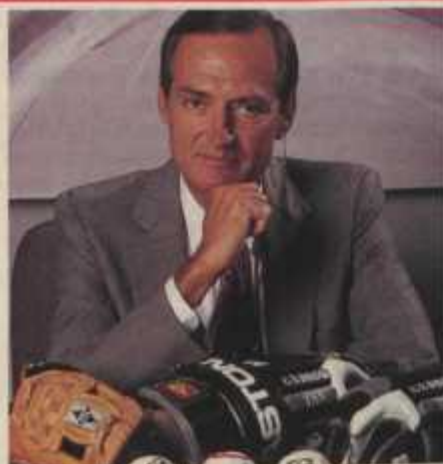


PHOTO: EBERT SATCHELBERG

"Working smarter" helped James L. Easton's sporting-goods company prosper. *Lessons Of Leadership*, Page 67.

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Our cover story in our January issue each year reports on the economic outlook for small business in the coming 12 months. The illustration on last year's story (right) generated a strong reaction from some readers who thought it was far too pessimistic, even with its qualification that adoption of sound growth policies could alter the forecast.

At that time, other sources of small-business information saw some encouraging signs that the economy was at last turning around.

Their reports generated a widespread feeling that the recession was finally ending and that Americans who had lost jobs could be more optimistic about finding new ones and those who held jobs could feel more secure.

As events were to show, however, our outlook was again on the mark. Growth policies were not adopted, and 1992 was not a good year for most small businesses.

Now, as 1993 arrives, there are again some encouraging signs about the economic outlook. Government statistics over the past few weeks have raised hopes that the long-awaited turnaround is finally here. We certainly hope that they are right this time.

But while "grim" doesn't apply to this year's outlook, we must again raise some cautionary signals. You'll see why when you read this comprehensive story (Page 16) by Assistant Managing Editor Roger Thompson, whose experience in researching and writing these annual cover stories gives him an expert's perspective on this complex subject.

Next month, the cover story will deal with economic growth of a different sort. The subject is enterprise zones, which are gaining increasing attention as vehicles for addressing inner-city problems. The idea of tax and other incentives to encourage entrepreneurs to locate in areas with particularly high unemployment has received greater attention since the Los Angeles riots last April. Can these zones meet the ambitious goals set for them? That question will be thoroughly explored in our upcoming report.



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Robert T. Gray
Editor

Nation's Business

Letters

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To Lease Or Not To Lease

I read with interest your November cover story, "Leasing Workers."

My labor-leasing company, established in 1983, has seen our clients' needs evolve, and we have included the lease-back services mentioned in your article. The initial interest of most of our clients, however, has been a two-tier system whereby both our employees and our clients' employees work together under different pay and benefits schedules.

Employers are justifiably concerned about losing control when turning over their employees to a leasing agency. By starting with a two-tier system, the client experiences the leasing company in action on a small scale while still realizing cost savings. Many of our clients start with the two-tier system before switching to a lease-back arrangement.

Janet Darrow-Winter
Operations Manager
Western Labor Leasing
Long Beach, Calif.



Your recommendation to seek advice from others before applying for a patent is sound, but a move is under way to change the patent law, and the change would contradict your advice.

Since the beginning of the U.S. patent system, the law generally has been that the first to invent, even if not the first to file, is entitled to the patent. There is now considerable agitation for giving the patent to the first one to apply to the Patent Office.

I have been a practicing patent lawyer for over 50 years, and I view that move with mixed emotions. It would certainly generate business for the patent bar; but over the years, I have counseled as many inventors to hold off on patent expenditures as other-wise. And in many cases after building, testing, and market-sampling, the inventor has saved his money for other uses.

So your advice is good for the present, but if the law is changed, inventors would do well to file the patent application before premature publication of the invention.

Warren T. Jessup
Jessup, Beecher & Slehofer
Westlake Village, Calif.

Private Businesses In Public Housing

"Seed Funds For The Smallest Start-Ups" [October] is an excellent article.

It mentions that there are many policy barriers that make it very hard for the poor to open businesses, and it specifically states that "residents of federal public housing are restricted by government rules from starting home-based businesses or earning money in their homes."

New regulations from the U.S. Department of Housing and Urban Development (HUD) permit the use of public housing for legal profit-making activities if they are incidental to use of the dwelling and approved by the public housing authority.

Richard K. Miller
Executive Director
Amsterdam Housing Authority
Amsterdam, N.Y.

New Patent Law May Be Pending

This letter is prompted by "Show, Tell, And Listen Before You Seek A Patent" [Managing Your Small Business, September].

Another Look At Insurance Figures

"How To Buy Health Insurance" [October, Cover Story] is a good article. However, several policies I recently studied for possible purchase by my company defined "copay" in an unusual manner.

Applying the figures in your article to these policies, the insured—after satisfying the deductible—pays 20 percent of medical expenses until he or she pays \$5,000, which becomes the out-of-pocket limit.

In your explanation, one would think that after paying the deductible, the insured would pay only \$1,000 for medical expenses of \$5,000, and the insurer would pay 100 percent of expenses after \$5,000. Not necessarily correct!

Under the policies I have studied, the insurer would not pay all the expenses until the expenses reached \$25,000; at that point, the insured would have paid \$5,000 (a 20 percent copay applied to \$25,000). The out-of-pocket limit means the limit that comes out of the insured's pocket—not 20 percent of it.

The policy I chose for my company, one mentioned in your article, defines copay exactly this way.
Karl C. Ashley
Secretary-Treasurer
Florida Vector Services
Gainesville, Fla.

[Editor's Note: The terms of copayment can vary among policies. Our reference was to a policy that limited the coinsurance provision to the first \$5,000 in medical expenses after the deductible.]

There's More Than One Way

Re: "Settling Disputes Through Mediation" [November 1992]: The dispute-resolution industry has unfortunately popularized the phrase "alternative dispute resolution" to describe conflict resolution as distinguished from litigation. The phrase implies that litigation is the superior choice for solving differences. The truth is that each method, including litigation, has its advantages and disadvantages.

The parties involved in a dispute have numerous options to choose from in re-



PHOTO: ROBERT HOLMGRIST

Alternative dispute resolution can resolve conflicts.

solving their conflict. Almost any combination of methods can be used to resolve disputes. The only limitation is one's creativity.

Stephanie K. Olson
Marketing Programs Director
Equilax Incorporated
Minneapolis

The Buck Stops Here—But Shouldn't

I enjoyed your article "A Dozen Ways To Sharpen Your Firm's Collections" [Managing Your Small Business, November]. I agree that sales-staff members should not be included in the credit-approval decision. What bothers me is that when an account sours, through bankruptcy or complete failure, it is the sales-staff members who take the hit in their numbers and/or commissions.

Complete accountability must accom-

pany all decision making whether it is management, sales, or credit department.
Elmer R. Corbit, Vice President
Industrial Sales Division
Harrison Paint Corp.
Canton, Ohio

Perhaps 14 Ways . . .

I read your article about cash flow with great concern. As a small-business owner and former credit manager, I know what you're talking about.

You should have all the items your article pointed out as well as an experienced credit person who knows how to get both personal and corporate guarantees, understands the industry, and can read a financial statement. You should also have a good, bonded collection agency to help out—two would be preferable.

Al Finnie, President
Alert Collection Services Co. Inc.
New Rochelle, N.Y.

Give A Test To Be Sure

Your November article "A Hiring Bonanza: Laid-Off Managers" unveils a simultaneous benefit and problem.

The benefit is this huge pool of job applicants. The problem is that it is hard to predict an applicant's on-the-job success.

Extensive research and experience show that most managers and business owners make poor predictions of job success when they use only interviews and reference checks. The remaining applicant-evaluation method is tests.

Pre-employment tests have proven validity in predicting applicants' job abilities and behaviors.

Michael W. Mercer, Ph.D.
Industrial Psychologist
The Mercer Group, Inc.
Highland Park, Ill.

Correction

Encore Manufacturing, the lawn-mower company mentioned in "New Ideas Get A Sporting Chance" [December 1992], is located in Beatrice, Neb. We regret that the location was cited incorrectly.

Send letters to Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062-2000, and include your phone number. You may fax your letter to (202) 887-3437. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.

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Entrepreneur's Notebook

By Roger Telschow

Quality Begins At Home

When I used to hear the phrases "total quality management" or "zero defects," I would envision sleek, high-tech manufacturing plants with perfect employees, perfect managers, and the latest in machinery and software.

I couldn't see how these techniques could apply to my printing business in metropolitan Washington, D.C. Yet my company, Ecoprint (so named because we

alternated between issuing ultimatums and asking too little of people in hopes that I'd win them over by being "nice." Neither method worked to my satisfaction, or theirs.

In fact, the company was profitable only when I worked long hours myself. Not knowing what else to do, I decided to sell the business. But like most entrepreneurs, I couldn't let it go that easily. Before chucking the whole thing, I thought, I'll try something revolutionary: I'll be myself.

I remember going into the shop and telling my employees that I needed their help. I said that I felt as if I had been trying to run the company single-handedly. From now on, I told them, I wanted them to manage their own jobs themselves, but I would help in any way I could. The bottom line, I said, is that to succeed, we've got to work together. And, I

added, just call me Roger.

I knew I had set something new in motion. We started to talk in terms of solving problems and working together toward common goals. We discussed customer requirements and how to meet them. And we had staff meetings more regularly.

I became more patient with people who wanted to learn, and I found I was less patient with those unwilling to embrace the changes. I hired, I fired, and I rehired more carefully. I began revealing the monthly profit-and-loss statement to the whole staff and explaining why we made or lost money.

I noticed, slowly at first, that this newfound openness, combined with more training, was making a difference. The employees seemed to have an investment in our success—which was their success too. New ideas to reduce errors and speed production began flowing from the shop floor to the front office. In time, it became obvious that we had unwittingly instituted a total-quality program. We were working as a team, guided by a strong desire to satisfy the customer.

We also began a quarterly profit-sharing bonus, which was tied to the company's performance. In a good year, such as 1990, 22 percent of profit was "reinvested" in the employees—about six weeks' pay on average.

Other innovations came quickly: A \$5 cash reward was paid on the spot to anyone identifying an error on a work order. Now we pay out an average of \$300 per year in these \$5 rewards, saving the company an estimated \$5,000 a year, which goes straight to the bottom line.

In 1991, we were nominated for the U.S. Senate Productivity Award for Maryland (a state-level quality award). We applied, and we became the first small business ever to win.

The reason: Our customer satisfaction is over 95 percent; more than 99 percent of jobs are delivered on the day promised; employee absenteeism averages less than one day per year per staff member; our sales volume has increased six times faster than average for companies in our industry in the past four years; and Ecoprint employees outproduce the industry average by 57 percent.

We learned a lot on our way to the award. For one thing, a small business can manage by using total quality methods even if the firm doesn't call them TQM. The important thing is that it is people—not robots—that make a quality program work.

You can even call some of those people by their first name and still get great results.



PHOTO: T. MICHAEL KERR

Roger Telschow: A newfound openness improved quality.

pride ourselves on "the most environmentally responsible printing anywhere"), would eventually reap rewards from quality-management principles—even though that's not what I called them at first.

Fourteen years ago, I started earning money part time by printing fliers and brochures on a small printing press in my basement. By 1984, I was making my livelihood as a printer and had hired my first employee. Suddenly, I was a manager and, like most new managers, not very comfortable in my role.

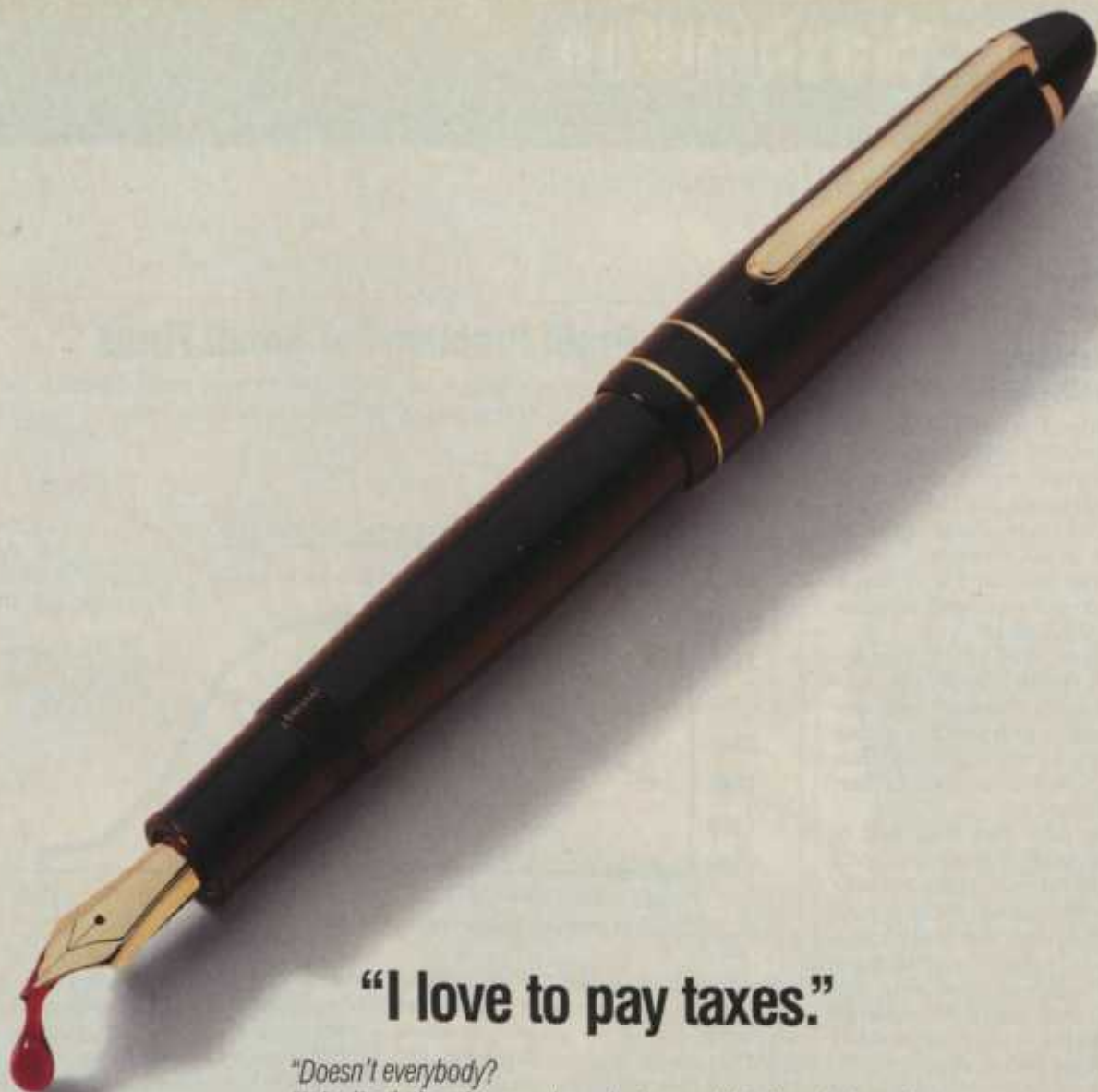
For the first few years, while my staff grew to three employees, I heeded the advice of others in the business. I insisted that employees call me "Mr. Telschow," and I never ate lunch with any of them. In an attempt to get things done right, I

Roger Telschow is president of Ecoprint, in Silver Spring, Md.

Readers with special insights on meeting the challenges of starting and running a business are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062-2000.

What I Learned

Openness, combined with more training, was making a difference. The employees seemed to have an investment in our success—which was their success too. . . . We were working as a team, guided by a strong desire to satisfy the customer.



"I love to pay taxes."

"Doesn't everybody?"

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Dateline: Washington

Business news in brief from the nation's capital.

By Albert G. Holzinger

GOVERNMENT REGULATION

Recent Federal Laws Curtailed Profits And Jobs

Four major federal regulatory laws enacted in 1989 and 1990 significantly diminished the ability of small businesses to make profits and create jobs, according to a newly released study. The study, titled "Derailing the Small Business Job Express," correlates government regulation over the past decade with small-business profitability and job creation.

The Republican staff of the congressional Joint Economic Committee commissioned the study. Research was conducted by two economics scholars on loan to the committee, Lowell Gallaway of Ohio University and Gary Anderson of California State University.

The authors found that from 1982 to 1989, small businesses typically enjoyed a slight decline in the per-employee dollar total of employment taxes, indirect business taxes such as sales and excise levies, compliance costs for environmental regulations, and changes in wage costs. Not coincidentally, they concluded, average business profits per worker increased 54 percent during the period, and firms with fewer than 20 employees created nearly 6 million jobs.

GRASS-ROOTS ACTIVITIES

Business Leaders To Speak Out On Policy Issues Feb. 23

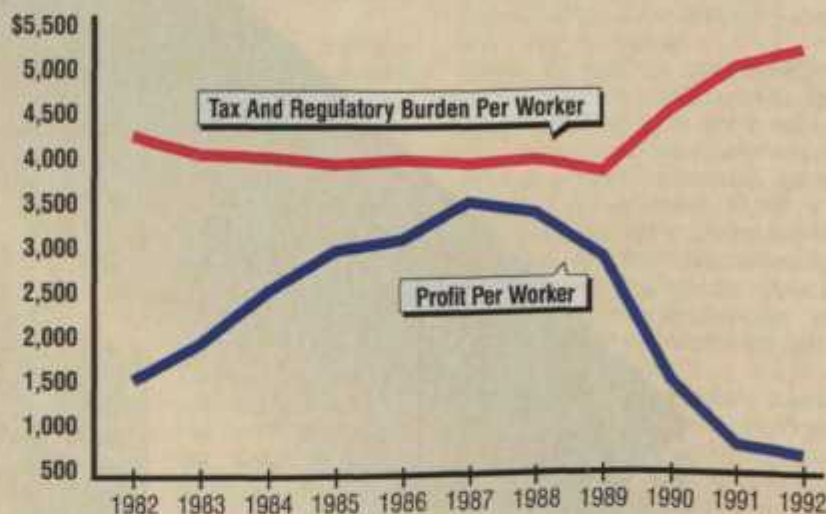
Business activists from across the United States will convene Feb. 23 in Washington, D.C., to urge their members of Congress and officials of the Clinton administration to support business's public-policy priorities as detailed in the U.S. Chamber of Commerce's *National Business Agenda for 1993-94*.

The priorities were established largely on the basis of discussions at five regional meetings conducted by the Chamber last fall. The meetings were attended by more than 1,200 business people.

Participants at the daylong National Business Action Rally in February will be members of the U.S. Chamber's unique federation of business people, members of state and local chambers of commerce, and members of national trade and professional associations. The U.S. Chamber is the world's largest business federation, with an all-time high total membership of 215,000 businesses plus 3,000 state and

A Profit Problem For Small Firms

Small businesses continue to struggle with the problem of steadily declining profits in the face of rapidly increasing federal tax and regulatory burdens.



Source: Joint Economic Committee of Congress, Republican Staff

But from 1989 to 1992, the researchers discovered, the government burden per worker increased 34 percent, business profit per worker declined 22 percent, and there was virtually no job creation. Gallaway and Anderson attributed most of the

increase in business's burden, a total of some \$130 billion, to the 1989 minimum-wage increase, the 1990 Americans with Disabilities Act, 1990 amendments to the Clean Air Act, and the 1991 Civil Rights Act.

INTERNATIONAL TRADE

Mexico To Increase Spending For Environmental Cleanup

President Carlos Salinas de Gortari's proposed budget for 1993 would increase Mexico's funding of domestic environmental-protection programs by 22 percent. The hefty increase is intended in part to blunt the criticism of some in the United States who oppose the North American Free Trade Agreement (NAFTA) on environmental grounds. Those critics allege that lax Mexican environmental laws and even looser enforcement could worsen the environment of nearby areas of the United States.

The proposed budget increase should provide additional export opportunities to U.S. firms that provide pollution-control equipment or services. Many of these firms already have made inroads in Mexico. If you are interested in opportunities in Mexico, call the U.S. Department of Commerce's Office of Mexico at (202) 482-0300 or the Embassy of Mexico's Trade Office at (202) 728-1700.

local chambers and 1,200 trade and professional associations.

This year's action rally will be in a new, four-part format.

A breakfast session will permit officials of the new administration to outline their goals and detail their positions on priority business issues.

President-elect Clinton has been invited to address the second morning session on his economic initiatives. Also at this session, outstanding small-business owners will be honored under the Blue Chip Enterprise Initiative of the Connecticut Mutual Life Insurance Co., the U.S. Chamber, and *Nation's Business*.

Leaders of the House and the Senate will field questions from the audience regarding the business agenda at a luncheon session, and the afternoon will be devoted to meetings among participants and members of their congressional delegations.

If you would like to attend the action rally or would like additional details, call Robert Moorhead at (202) 463-5604.

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Managing Your Small Business

Putting payroll hassles out the door; long-haul customer service; tips for better teamwork.

By Bradford McKee

FINANCIAL MANAGEMENT

Shifting The Burdens Of Payroll Paperwork

The Internal Revenue Service estimates that 30 percent of all employers incur penalties for insufficient or late deposits of employee payroll taxes.

Maybe that is because, for most small firms, computing the payroll can be a complicated burden.

So instead of trying to do it themselves every pay period and perhaps risking a visit from the IRS, some business owners turn the whole chore over to professional payroll services.

Because they had to pay federal, state, and local taxes as well as file quarterly reports for this and that while trying to keep up with ever-changing tax laws, Debbie and Martin Henry, co-owners of the Martin Henry Fitness Studio, in West Hollywood, Calif., say they felt safer having the task performed by someone who knows the rules by heart. Payroll is "really frightening unless you stay on top of it," Debbie Henry says.

Most big companies have their own payroll departments; for small firms, payroll eats into the bookkeeper's time. That is especially true for the Henrys, who pay their office staff by the hour but pay exercise instructors according to the number of students enrolled in their classes.

If you decide an outside payroll service



PHOTO: GREGORY DEWE

Fitness studio owners Martin and Debbie Henry of West Hollywood, Calif., prefer to have their payroll tasks performed by an outside company.

would be cost-effective for your firm, shop carefully. Bob Byrne, a payroll specialist at Wells Fargo Bank, in San Francisco, suggests that before you select a service, you should get answers to these questions:

- Does the service offer complete tax help—preparing quarterly returns, tax deposits, and W-2 forms? Will it handle pretax deductions for health- and life-insurance premiums? Does the service guarantee its accuracy, help you with IRS disputes, or pay penalties that result from its mistakes?

- Does the payroll company provide

flexible options such as direct paycheck deposit for your employees at various banks? Will its reports clearly tell you where your money went, and when? Does it ensure confidentiality?

- What is the turnaround time for delivery of paychecks and records? How long does it keep your records—at least seven years, per the statute of limitations?

Debbie Henry says her fitness firm also receives month's-end and year-to-date reports for all of its employees. "It's great to know all that is taken care of for me," she says.

SERVICE

Reach Out To Customers In Good Times—And Bad

A commitment to customer satisfaction doesn't always bring instant rewards, says Tim Lawler, who owns a Milwaukee franchise of Management Recruiters International Inc., an executive-search company based in Cleveland. But you should let customers know "you're with them in lean times as well as good" so they stick around when the economy improves.

To retain your best customers, Lawler says, keep these points in mind:

- Share your knowledge of your industry with your clients, and educate them with seminars or talks about your product or services.

- Listen to what they say about you and your competition, and give them what they want, not what you want them to want.

- Stand by your guarantees, no matter what. Let them know that your commitment to customer satisfaction is utmost.

- Help customers make informed decisions, even if it means no immediate sale. They'll remember you.

- Keep in touch with customers. If you see something that might interest them—even if it's not related to your business—write them a note or give them a call.

- Hold a customer-appreciation day. Invite them in for a bag lunch or coffee and doughnuts. Have a tailgate party at the stadium, or a dinner cruise. Make them feel wanted.

- Follow up customers' purchases with a call to make sure they are satisfied.

"People do business with their friends," Lawler says. So it helps to develop a friendly bond with the most important people in your business.

—Meg Whitemore

RESOURCES

A \$1 Million Gift For A Business Database

The Edward Lowe Foundation, in Cassopolis, Mich., has announced a \$1 million award to the Library of Congress to establish a Business Answers Research Center in Washington, D.C. The center is to serve entrepreneurs nationwide through an interactive computer system of free legal, financial, and statistical information.

Details of the center are incomplete, but a library spokesman says he expects the Library of Congress will seek the cooperation of other libraries, business incubators, and local entrepreneur support groups in fulfilling the goals of the project. The center is expected to be under way later this year. For more information, call the Lowe foundation at (616) 445-3882.

CREDIT AND COLLECTIONS

Tact Works Better Than Tough Talk

Talking tough with delinquent debtors may sound like one way to blow off steam when you've not been paid, but it's not very effective, and it could even be illegal, say specialists at a collection agency that is trying more constructive methods.

As at many collection firms, the collec-

when dealing with problem debtors. "We get far better results" that way, Barrist says.

His staff is trained to handle with kid gloves those people who are unemployed, elderly, or ill. And collectors also must "memorize" the federal Fair Debt Collection Practices Act. That 1977 law barred abusive, misrepresenting, and early-morning or late-night calls as well as calls



PHOTO: SLEEP BOOKSTORES—WOODFIN CAMP

NCO Financial Systems' president, Michael Barrist, left, and Joe McGowan, vice president of operations, train Denise Fowler in collection techniques.

tors at NCO Financial Systems Inc., in Blue Bell, Pa., earn commissions on payments they manage to obtain from delinquent accounts, so there is an incentive to get back as much as possible. But NCO's president, Michael Barrist, trains his staff to use firmness, tact, and diplomacy—not humiliation or antagonism—

to the debtor's workplace. The law applies to third-party collectors only. Even so, NCO shows that it pays to be reasonable with debtors, says Joe McGowan, the firm's vice president. A major physicians' group so admires NCO's method of operating that it recommends the firm to its members.

PERFORMANCE

Collaborative Teamwork's Most Common Obstacles

Wilson Learning Corp., a training firm in Eden Prairie, Minn., defines a collaborative atmosphere as one in which work proceeds smoothly because there is little divisiveness among departments and thus little internal competition. Collaboration, it says, stresses "ways of interacting" rather than team structure. The firm studied 4,500 teams in 500 companies and found the most common obstacles to collaborative teamwork were:

- Compensation and rewards that consider individual performance only, with no incentive to improve teamwork;
- Performance appraisals that don't recognize team efforts;
- Information systems that do not deliver strategic data to teams;
- Top management lacking faith in the staff's teamwork; and
- Organizational setups that breed negative internal competition.

The study concludes that team members must give up their own agendas and accommodate individuals' ideas.

TRAVEL

Forecast For The Road: A Slight Incline

Business-travel costs are likely to rise 3.8 percent in 1993, according to analysts at Runzheimer International, a travel-management consulting firm in Rochester, Wis.

Air fares are projected to increase 4.5 percent, and meal and car-rental costs are each expected to rise about 3 percent, which would be no higher than the rate of inflation, according to Runzheimer. Lodging rates are expected to climb only slightly—0.5 percent.

The travel-management firm suggests that smaller companies can benefit by negotiating for reduced hotel rates. Negotiating can also cut meal costs slightly if your hotel will include, say, breakfast or other meals as part of the room rate. This would qualify the expense for a 100 percent tax deduction rather than the 80 percent deduction allowed for meals. The accounting can get "a little tricky," says Karen Batterman, a Runzheimer vice president, but it could save you a bit of money.

COMPENSATION

Openness Of Salary Policies Can Foster Productivity

The results of two separate studies on companies' compensation plans indicate a correlation between the openness of a firm's salary policies and the productivity of its employees. The results suggest that the more your employees know about the design of your compensation plan, the better they're likely to perform.

One of the studies, by the American Compensation Association, based in Scottsdale, Ariz., examined 2,200 compensation plans and gathered comments from employees at companies involved in the study.

The findings suggest that employees perform better when rewards and bonuses are tied to "soft" factors—those that cannot be quantified, such as service and quality—rather than solely to profits.

In the other study, the Towers Perrin management-consulting firm looked at the compensation programs at 270 manufacturing and service companies. Towers Perrin says it found that those companies that meet or surpass their own performance goals are also those most likely to be giving their employees information about how salary policies are established. In the study results, these were called "successful" companies.

The following table shows the percentages of companies—both successful and unsuccessful—that reported in the Towers Perrin study that they discuss each of these salary-related subjects with their employees:

	Successful Companies	Unsuccessful Companies
Individual Salary Grade	89%	81%
Individual Salary Range	80	78
Individual's Position In The Range	80	72
How Salary Grades Are Determined	71	57
Company's Competitive Pay Position	54	44
How Individual Salaries Are Set	81	67

NB TIP

Burdens Of Shift Work

Employers can find ways to help improve the lives of shift workers in *Shift Work: Family Impact and Employer Responses*, a new booklet published by the Bureau of National Affairs Inc.

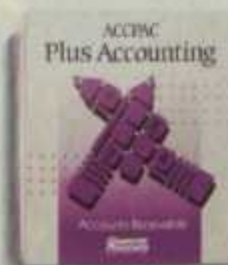
The 32-page guide explains in detail about the tolls that shift work can take, and it contains profiles of how certain companies have worked to reduce those burdens. Copies are \$40 each plus state taxes and shipping costs. Contact BNA Customer Relations, 9435 Key West Ave., Rockville, Md. 20850; 1-800-372-1033. NB

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It's Only Rock 'n' Roll

By Michael Barrier

Paul Scharfman sells rock 'n' roll. Not the kind you listen to—you won't find any records for sale in his store—but the kind you look at. Scharfman, 47, is the proprietor of the Rock Store, on fashionably funky Melrose Avenue in Los Angeles. His store is, he claims, the first devoted solely to rock memorabilia, a term that embraces everything from autographed guitars to posters to a Ricky Nelson comic book.

The most popular rock performers (and many not so popular) have spawned countless pieces of licensed merchandise, all of them sought by collectors, but the collecting urge extends beyond toys and buttons and charm bracelets to such things as backstage passes for Kiss concerts and publicity kits for Elvis Presley movies. Scharfman seems to have just about all of it.

One display case holds Presley memorabilia that dates from after Elvis' death in 1977; another is filled with Beatles treasures from the '60s. There are cases, too, devoted to the Monkees and the Rolling Stones. You can buy a framed set of a dozen different drummers' drumsticks, or clothes that Elton John and Madonna wore on stage (Madonna's "cage" outfit goes for \$8,000).

Many such stores for collectors spring from the owners' own collecting interests, but that is not true in Scharfman's case. He is not a great rock fan or a collector of rock memorabilia.

"You don't have to have an interest in the music," he says. "You have to have an interest in the people who buy it." Be-

cause his focus is on the customers, he says, "I think I could walk into any business and turn it around."

For 15 years, he and his wife, Chris, have owned a store on Melrose that sells antique toys and other collectibles (for their own pleasure, they collect old movie posters). He began thinking about a rock memorabilia store, he says, when he noticed his customers' interest.

"We'd have some vintage Beatles items, say," he recalls, "and people would say, 'Do you have anything on Bruce Springsteen?' We'd get asked every day about rock 'n' roll stuff. So I said, 'We should open a store with nothing but rock 'n' roll memorabilia. Just hoard it for 10 years, and then open up a store that would blow everybody's mind.'"

And that's exactly what Scharfman did. After 10 years of accumulating and warehousing stock, he opened the Rock Store in mid-1989.

It wasn't hard to find memorabilia once

Strictly business: Paul Scharfman's wares happen to be rock memorabilia.



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MAKING IT

he got started, Scharfman says. A lot of it turned up at flea markets and doll shows and the like; and then, he says, because "we made so many connections," a lot of sellers, many of them in the record business, started coming to him.

When people connected in some way to rock stars come into the store, he pumps them for information about other people who might have saved things and be willing to sell them. But, he says: "Most musicians don't want to part with anything, because even if they're dead broke, they don't want to appear to be dead broke."

Some collectors concentrate only on

magazines, others on pictures, and still others on anything associated with a group. "The really tough part of the business is trying to guess what people are going to be interested in," he says.

Record sales are not a reliable guide; some big-selling performers, like Billy Idol, generate little interest among collectors. Other stars, like Presley, the Beatles, and Michael Jackson, are popular with record buyers and memorabilia collectors alike.

The Rock Store, which has six employees, opened to a tremendous volume of business, Scharfman says, but was hit hard by the recession; since then, sales

have climbed back up, and he expects the total to pass \$1 million in the store's fourth year.

Mail orders received a strong boost in 1992 from the Rock Store's first catalog, a 257-page volume that will probably become a collector's item itself.

Even though there is no trace of the hobbyist or the enthusiast in Scharfman's approach to his business, it's hard for him not to sound like a collector at times. "I dream," he says, "about somebody walking in here and saying, 'I was one of the roadies for [Led Zeppelin lead guitarist] Jimmy Page, and this is that dragon outfit that he wore back in the '70s.'"

The Answer Man—And Woman

By Janet L. Willen



PHOTO: CARROLL ADLER

Those in the know: Andrew Garvin and Kathleen Bingham run a research firm that serves up facts and analyses for businesses.

Soon after Hurricane Andrew devastated Florida and Louisiana in August, Find/SVP in New York was deluged with additional phone calls. Most of them came from Japanese gas companies and U.S. utilities that wanted to know the likely effect that storm damage would have on the price of natural gas. Other callers wanted to know the extent of the hurricane damage and the costs of repairs.

News reports trigger many of the 200 questions that pour in daily to Find/SVP, a New York firm that provides research services to businesses by phone. Answers come from the firm's 90 researchers, whom Executive Vice President Kathleen Bingham calls "our assets."

Those researchers know how to use and interpret the 2,000 publications the firm receives each month, its more than 2,000 online databases, tens of thousands of subject and company files, hundreds of reference books, and extensive microfiche collection and computer disk sources.

Bingham began the company with Andrew Garvin, now president of Find/SVP, in 1969. Two years earlier, Garvin was a

reporter for *Newsweek* in Paris. *Newsweek* subscribed to the services of SVP (the initials stand for *s'il vous plait*, the French for "please"), a research firm in the French capital, and Garvin used SVP to get background information for his news stories. At the time, he thought SVP could be a valuable resource for small businesses.

Bingham, meanwhile, was doing research as a free-lance consultant in New York, under the name Find Associates. She says it became apparent to her that large companies had all kinds of research at their disposal—and that the key to competing with those giants was to "get hold of facts."

In 1969, Garvin and Bingham, who had met through a mutual friend a few months earlier, negotiated an agreement with SVP, which assisted them in developing their billing system and gave them access to its resources.

In those early days, Garvin "walked the streets" to get accounts, and Bingham used New York City's vast information resources, like the New York Public Library, to ferret out the answers to

clients' questions. Garvin and Bingham hired their first sales person and their first researcher in 1971.

Today, Find/SVP's 1,650 clients include hundreds of small firms and dozens of very large ones. Garvin and Bingham say their clients' calls range from requests for specific statistics to broad questions requiring in-depth studies.

A researcher fields questions in one of nine areas, ranging from consumer products to employee benefits to personal computing. In hiring researchers, Bingham says, she looks for people who enjoy solving problems, who like people, are extroverted, have expertise in a specific field, and can listen and understand. Stan Stanford, manager of the consumer group, says a researcher typically answers six to 10 questions a day.

Large firms often have questions about marketing, Bingham says. One firm, for example, wanted market statistics on 120 products from seven countries. Small firms, on the other hand, know their market and tend to ask operational questions—they may seek advice on training programs, for instance. Find/SVP tries to respond by phone within 48 hours and may follow up with a written report.

The cost of answering questions is charged against the retainer that Find/SVP uses for billing its clients. Find/SVP charges a fee based on its estimate of how much use the client will make of its services; then the client can call as often as it needs. Initially, most retainers fall between \$450 and \$1,500 per month; \$5,000 to \$6,000 a year for small clients.

Revenues in 1991 were more than \$17 million, an increase of 7.2 percent over 1990. Garvin says the firm has never had a down quarter.

Find/SVP is growing as planned, say Garvin and Bingham. In fact, the business plan they wrote in 1969 is still a useful guide. Their only surprise may be that their appeal is not just to small businesses but to large companies as well. And, says Bingham, as their small clients grow large, Find/SVP continues to serve them.

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Circle No. 33 on Reader Service Card

1993: Tough, But Hopeful

By Roger Thompson

President-elect Bill Clinton's imminent arrival in the White House is cause for both hope and anxiety among the nation's small-business owners.

"I couldn't go on another four years like the past four years," says Christine Bierman, president of Colt Safety Inc., a distributor of industrial safety gear in St. Louis, Mo. "I'm working harder and longer hours just to make a profit. I really felt we were in desperate need of change."

"I don't have any fear of another Jimmy Carter era," she continues. "Clinton knows it can't be business as usual. I have a very positive outlook for 1993 and into the 21st century. The new administration will bring with it energy, youth, and innovative ideas."

Bierman's optimism is not shared by the majority of small-business people, however. There is widespread concern among entrepreneurs that they will face higher taxes and more regulation under Clinton's administration. "I think he is going to hurt us a lot, especially with [Albert] Gore as vice president," says Roy Harris, president of Quaker City Plating Ltd., a metal-finishing firm in Whittier, Calif. "The environmentalists don't give a damn about business." And small-business owners count Vice President-elect Gore as firmly in the environmentalists' camp.

Although Harris provides health insurance for his employees, he worries that Clinton's promised health-care reforms will require small companies like his to pay for dependent coverage as well. "If we have to pay for everyone, it will just kill us," says Harris. "It will put a lot of people out of business."

Harris' concerns about the incoming administration were among the reasons



"Creating new jobs and getting our economy moving again will be my top priority as president."

President-elect Bill Clinton

for the opposition to Clinton that developed among small-business people during the campaign. Only 17 percent of entrepreneurs in a pre-election survey by *D&B Reports*, a monthly business magazine, said they would vote for Clinton. Fifty-four percent said they would vote for President Bush, despite their sour mood about the economy. The remainder favored Ross Perot.

The same survey also showed small-business owners were more pessimistic at the time about prospects for their companies and the economy in general than at any point since the deep recession of 1981-82. The U.S. Chamber of Com-

merce's Business Confidence Index also registered sizable drops in both August and October, following six months of steadily increasing optimism.

For a candidate who talked tirelessly about the pivotal role small business must play in reviving the U.S. economy, it's clear that Clinton must win the respect of small-business owners the old-fashioned way: He'll have to earn it, just as he did in Arkansas.

Clinton made economic development one of his top priorities as governor, and he succeeded in winning passage of an investment tax credit and other tax incentives to spur growth. During his decade-long tenure, Arkansas attracted 573 new plants, and 2,173 expanded, producing over \$11.6 billion in capital outlays, says Ron Russell, executive vice president of the Arkansas State Chamber of Commerce. Altogether, Arkansas gained more than 200,000 jobs over the past decade and ranked No. 1 in job growth in 1991.

One of Clinton's strong points, says Russell, is that he listens carefully to both sides of any issue. That doesn't mean that business interests always got their way, but at least they

got a fair hearing, he says.

Clinton's record in Arkansas shows that "this is not a knee-jerk, anti-business administration coming to town," says William T. Archey, senior vice president for policy and congressional relations for the U.S. Chamber of Commerce. The Chamber has taken a cautiously optimistic view of the new administration.

Despite Clinton's successes in Arkansas, fixing the national economy will be far more daunting. Job growth has stalled under the weight of a host of "structural" problems. Among them:

■ Corporate restructuring that is eliminating hundreds of thousands of jobs;

A good start—with sluggish growth by year's end—shapes the economic outlook for 1993. But some find hope for improvement in the coming Clinton administration.



1993 Economic Forecast: Sluggish Growth

■ An education system inadequate to the demands of technology-oriented workplaces;

■ Ongoing savings-and-loan failures;

■ Intensifying competition in global trade;

■ A military-spending reduction that is sending shock waves through much of the private sector;

■ High levels of personal and corporate debt;

■ The continuing depression in real estate;

■ Runaway health-care costs.

In addition, Clinton inherits a \$3 trillion national debt that limits Washington's ability to jolt the economy to life with a surge in government spending.

With the usual clarity of 20/20 hindsight, the consensus view now maintains that the nation's economic stagnation was inevitable, given those factors. But that was not the consensus view two years ago as the U.S. skidded into recession. At that time, most economists expected the downturn to be brief and followed by a robust recovery. That's what had happened after seven previous recessions since World War II. This time, however, the consensus view was wrong.

For its part, the U.S. Chamber never espoused the consensus view. In August 1990, it was the first business organization to predict the imminent arrival of a recession. Ever since, it has consistently

warned that higher taxes imposed by the 1990 budget deal, increased regulations, and uncontrolled federal spending would restrain the recovery.

Although the economy has been growing since the spring of 1991, the pace of recovery has been so anemic—an estimated 2.1 percent growth rate for 1992—that many business owners still talk about the recession in the present tense. In a normal recovery, the pace of growth would be more than double the current rate.

Most economists now say the new year will be better, but not much. Expect gross

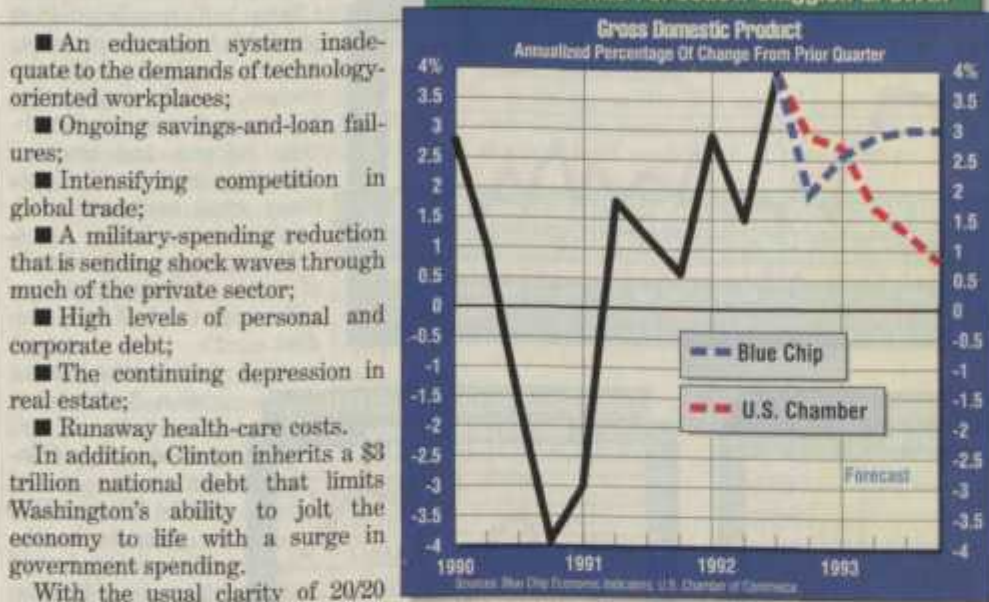
domestic product—the nation's output of goods and services—to creep upward by 2.8 percent in 1993. That's the consensus view of 51 business and academic economists surveyed monthly by *Blue Chip Economic Indicators*, a Sedona, Ariz., newsletter.

The U.S. Chamber, which participates in the Blue Chip survey, projects a slightly lower growth figure of 2.3 percent but differs sharply with the consensus on the direction of the economy by year's end. (See the chart at left.)

The *Blue Chip* consensus is that the economy will strengthen gradually, showing an annualized growth rate of 3 percent for the fourth quarter of 1993 and moving into 1994 in relatively good condition.

The Chamber sees the economy starting the year relatively strong, near 3 percent growth in the first quarter. It attributes the recent upsurge in economic statistics to enhanced spending in the aftermath of Hurricane Andrew and the buoyant effects of the 1992 reduction in federal income-tax withholding. But the economic stimulus from both will wear off early in 1993. As a result, if nothing is done to fix nagging problems, the Chamber projects a gradual decline in the pace of expansion, with growth for the final quarter of 1993 falling below 1 percent.

Neither forecast projects growth that would be strong enough to dent the high



unemployment rate. The only good news is that inflation and interest rates will remain in check. (See the charts on Page 17.)

"In our view, the economy under current conditions is locked into slow growth," says Lawrence A. Hunter, vice president for economic policy and chief economist of the Chamber. "We expect the economy to slip back into lower growth in mid-1993 unless we enact pro-growth policies."

Beyond 1993, the Chamber's outlook is even more bleak. Without policies to curb federal spending, reduce regulations, and cut taxes, "there is a distinct possibility of recession in 1994," the business federation warns in its most recent economic forecast.

At the top of the Chamber's list of growth-enhancing policies, says Hunter, are a cut in the tax on capital and a reduction of banking regulations that restrict the flow of money to credit-starved small businesses.

Clinton has announced his support for both approaches, but he has yet to announce how far he would go on either. Throughout the campaign, he advocated a broad array of policies to increase investment and spur job growth, especially among smaller enterprises. He has reaffirmed those commitments since the election.

Clinton's plan for small-business growth, as announced during the election campaign, calls for:

- Increasing access to capital and credit by creating a new-enterprise tax credit, directing banking regulatory agencies to review all regulations and increase lending activity to small business, and helping the private sector establish a national network of 100 community development banks.

- Strengthening investment incentives by providing a targeted investment tax credit, making permanent the research-and-development tax credit, and creating 75 to 125 tax-favored enterprise zones to help revive economically depressed areas.

- Cutting government regulations by enforcing the 1980 Regulatory Flexibility Act's provisions for reducing regulatory burdens on small business; developing regulatory short forms; and strongly sup-

porting a White House Conference on Small Business.

- Creating a Rebuild America Fund that would increase federal spending on infrastructure projects by \$20 billion a year for four years; establishing 170 manufacturing centers in a national technology extension service similar to the Agricultural Extension Service; and doubling the funding for the Small Business Innovation Research Program, which allocates a percentage of federal research funds to small business.

- Providing substantial financial assistance through tax credits to enable small business to provide private health insurance. The plan is not "play-or-pay" and does not propose a payroll tax to pay for a government health program. It would control health costs through managed competition and a national health budget. It would phase in an employer requirement for coverage after cost controls are in place. And it would increase the health-insurance-premium tax deduction for the self-employed to 100 percent from 25 percent.

With Job Growth Weak...

Nonfarm Employment (in Millions)



...And Incomes Shrinking...

Average Weekly Nonfarm Earnings (in 1982 Dollars)



Consumer Confidence Is Depressed...

Consumer Confidence Index (1985=100)



...And Business Confidence Is Down

Business Confidence Index



CHARTS: ALBERTO PACHECO

Clinton has pledged to do all this and cut the annual federal deficit in half—to about \$145 billion—by the end of 1996. Under his pre-election plan, funds for deficit reduction would come in part from raising the top individual tax rate to 36 percent from 31 percent for couples with adjusted gross earnings of more than \$200,000 a year and for individuals earning more than \$150,000.

Skeptics maintain that Clinton can't possibly deliver on all his campaign promises without broader-based tax increases. And they worry that his commitment to health-care reforms and environmental protection will cripple many small businesses with costly new mandates.

Hammering out the details of these campaign promises will occupy much of the president-elect's time between now and the inauguration. And a burst of activity is expected when Clinton arrives in the White House. "This is going to be the most ambitious 100 days since Roosevelt," says the transition team's policy director, Bruce Reed.

More than any Democratic leader in recent memory, Clinton connects U.S. economic strength with a viable small-business sector. Throughout the expansion that lasted from 1982 to 1990, small businesses created two out of every three net new jobs. And small firms have been the only source of net job growth during the recovery.

From June 1991 to June 1992, small businesses created 173,000 jobs, while firms with more than 500 employees lost 235,000 jobs, according to Small Business Administration figures. (See the table on Page 19.)

Despite this apparent strength, small companies have been badly hurt by the recession and its aftermath. In 1991, net new business formations were at the lowest level since peaking in 1986, and 1992 will register only marginal improvement, according to Dun & Bradstreet Corp. Moreover, D&B figures show that business failures were up 17 percent in the first half of 1992, reaching 50,582, compared with 43,324 during the same period the year before.

Small businesses are hurting because

consumers aren't spending as they used to. Their worries about large personal debt, job security, and shrinking paychecks are keeping them from spending as freely as they did in the roaring 1980s.

Total civilian employment today has not exceeded the pre-recession high reached in May 1990. And take-home pay for the average worker has not kept pace with inflation. Under these circumstances, it's not surprising that levels of consumer and business confidence remain depressed. (See the charts on Page 18.) Even the post-election rebounds in consumer confidence and take-home pay were not enough to cause most economists to alter their forecasts for 1993. Economists argue that the key to a strong recovery is sustained job growth, which has yet to materialize.

While Clinton has been inundated with advice about how to get the U.S. out of its economic rut, small-business advocates have focused their attention on three areas: capital, credit, and regulatory relief.

Capital

In a telephone survey by the Arthur Andersen accounting firm the day after the election, owners of fast-growing small businesses ranked a cut in the capital-gains tax as the most important action the Clinton administration could take to spur the growth of small and midsize companies.

"Businesses are starved for cash to expand or just to maintain current operations," says Rick Fumo, managing director of the Arthur Andersen Enterprise Group, which conducted the survey. "Any money you pay out in taxes is money you can't reinvest in the business."

A cut in the capital-gains tax would be particularly important for high-growth firms, says David Birch, president of Cognetics, a Cambridge, Mass., research company that tracks small business. Birch says that just 5 percent of small businesses, or about 500,000 companies, accounted for 77 percent of the nation's job growth in the 1980s. He calls these fast-moving companies gazelles.

"The capital-gains tax in its present form [taxing investment gains as ordinary income] is an enormous deterrent for gazelles," he says. On average, he argues, investments in growing but risky small firms yield no more in after-tax dollars than putting money in safe government Treasury bills.

The U.S. Chamber of Commerce maintains that a cut in capital-gains taxes is one of the most important pro-growth

policies that the new administration could adopt. This can be accomplished in two ways: cutting the tax rates—currently 15, 28, or 31 percent, depending on a taxpayer's income; or removing the effects of inflation on the total taxable gain. The Chamber also favors taking inflation into account when calculating depreciation deductions for buildings and equipment. The effect would be to allow companies to recover close to the full replacement cost of their investment. This produces twice as much economic growth as indexing for capital gains alone.

Indexing assets for capital-gains and depreciation deduction purposes would be the economic equivalent of providing an

ment tax credit as the centerpiece to his economic plan. Laurence Meyer, an economic adviser to the Clinton campaign, calculated that a 10 percent credit on equipment purchases that exceed 80 percent of 1992 levels would generate 500,000 new jobs by the end of 1993 and cost no more than \$11 billion in lost revenues over two years. There's a chance that the cut would cause no revenue loss because of increased economic growth.

Credit

If small business is the engine of U.S. economic growth, bank credit is the fuel. Lately, fuel has been in short supply. "Our files are bulging with examples of small businesses that can't get a loan even when they have never missed a payment," says Mitchell F. Stanley, head of the Small Business Administration's loan programs. The banks' stinginess stems from

the worst financial crisis since the Great Depression.

In the wake of massive savings-and-loan failures in the late 1980s, Congress has passed major laws designed to prevent another taxpayer bailout of failed financial institutions. Bankers are most critical of the Federal Deposit Insurance Corporation Improvement Act of 1991, which imposed stringent new documentation and loan-review requirements.

Now, many analysts contend, regulatory overkill has forced banks to be too cautious and to retreat from their traditional role of supplying a steady flow of

credit to small companies. Federal Reserve Chairman Alan Greenspan said in a recent speech that recovery will remain elusive as long as banks are reluctant to lend. "An impressive number of worthy applicants have been rejected," he noted.

Ironically, increased loan demand may cause the credit squeeze to tighten, says Thomas A. Gray, president of the Center for Small Business Studies, in Washington, D.C., and former chief economist of the Small Business Administration (SBA). "The banks are trying to be ultrasafe, and the regulators are trying to ensure ultrasafety. So when the economy turns up in the near future, the credit crunch will get worse because more businesses will need loans to grow, but they won't be able to get them," says Gray.

Based on campaign statements, banking reform will be a priority in the Clinton administration. Though Clinton has said he supports a reduction in existing banking regulations, detailed policy positions



Small Business Provides The Only Job Growth (June 1991 To June 1992, in Thousands)

Industry	Small-Business Sector	Large-Business Sector
Mining	-1.8	-61.2
Construction	-83.5	(NA)
Manufacturing	-5.1	-295.8
Transportation, Communications, and Public Utilities	21.3	-49.0
Wholesale	-78.3	(NA)
Retail	34.7	-143.7
Finance, Insurance, and Real Estate	-10.6	8.5
Services	296.4	306.2
Net Change	173.0	-235.0

Source: U.S. Small Business Administration

80 percent exclusion for capital gains and a permanent 5 percent investment tax credit, according to Chamber economists. The combined economic effect would be to reduce the cost of capital by about 20 percent and boost average annual growth by 1 percent through the 1990s, says Hunter, the Chamber's chief economist.

For his part, Clinton has pledged a more limited cut in capital gains. In an effort to boost business start-ups, he advocates a 50 percent exclusion of gains from long-term investments in new companies. He has also proposed that small businesses be allowed to deduct start-up expenses up to a certain amount. And he has said that his administration will explore making S-corporation status available to a broader class of small businesses. This would amount to a significant tax cut for those affected by eliminating the double taxation of corporate and individual income. S-corporation income is taxed only at the individual level.

Since the election, however, Clinton has promoted a proposed revival of the invest-

Striking Differences in Regional Growth

How fast will your region grow in 1993? All the attention focused on sluggish growth in gross domestic product (GDP), projected at about 2.8 percent in 1993, obscures the large growth gaps among the nine U.S. Census regions. For example, the nation's strongest region, the Mountain states, is expected to grow at nine times the rate of the weakest, New England, according to projections by Regional Financial Associates, a West Chester, Pa., consulting firm.

New England's current anemic condition is an about-face from the East and West coasts' go-go years of the 1980s. In fact, the bicoastal boom of the 1980s has become the bicoastal bust of the 1990s.

For the coastal regions, the key economic stimulants of the 1980s became the big depressants of the 1990s, says Mark M. Zandi, managing director of Regional Financial Associates. The coasts cashed in big on the defense buildup, and now they're getting clobbered by the build-down. Tax laws once favored commercial real-estate development, but changes in the 1986 tax law erased the tax breaks, and the overbuilt market went sour. Deregulation of financial services produced an employment bubble that burst with the widespread collapse of savings-and-loans and scores of banks. Through the 1980s, consumers borrowed heavily to buy more and more. But the collapse of real-estate values and the uncertain job market have left debt-ridden consumers in no mood to shop.

"The good news for the coasts is that the worst is over," says Zandi. "But that's not to say that conditions will improve

rapidly." Because many of today's economic problems are structural, not cyclical, it will take time to adjust and rebound.

By contrast, the Mountain states constitute the nation's strongest region, largely because they didn't participate in the 1980s' excesses, says Zandi. Defense contracting wasn't a big part of the local economies, and commercial construction and real-estate values didn't overheat.

The Mountain region also is benefiting from the exodus of companies and workers from California, especially the Los Angeles region. In fact, low taxes, moderate living costs, and a skilled work force have created a very attractive growth environment in the Mountain states.

The area from Texas to Michigan can

also expect solid growth during 1993.

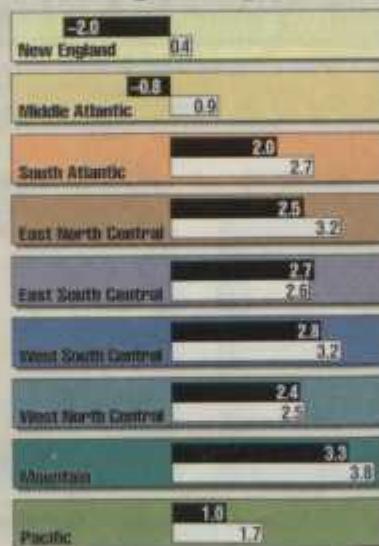
By the early 1980s, the nation's key manufacturing states in the East North Central region already had plunged into a painful restructuring that shed thousands of jobs. The region became known as the Rust Belt. But the manufacturing base emerged leaner and ready to compete in world markets. Today, exports from this region are booming, and international trade has been the sole bright spot in the economy lately, says Zandi.

The energy-producing states of Texas, Oklahoma, and Louisiana also went through a painful economic contraction when oil and gas prices collapsed in the early 1980s. But energy prices since have stabilized, and the region restructured to reduce its dependence on oil and gas. Texas, in particular, has emerged as an attractive site for business relocation, Zandi says. Exports and agriculture also will boost the region's economy.

The farm states of the West North Central region will register moderate growth in 1993, as will the Southern states in the East South Central region. Neither region got caught up in the excesses of the 1980s, says Zandi.

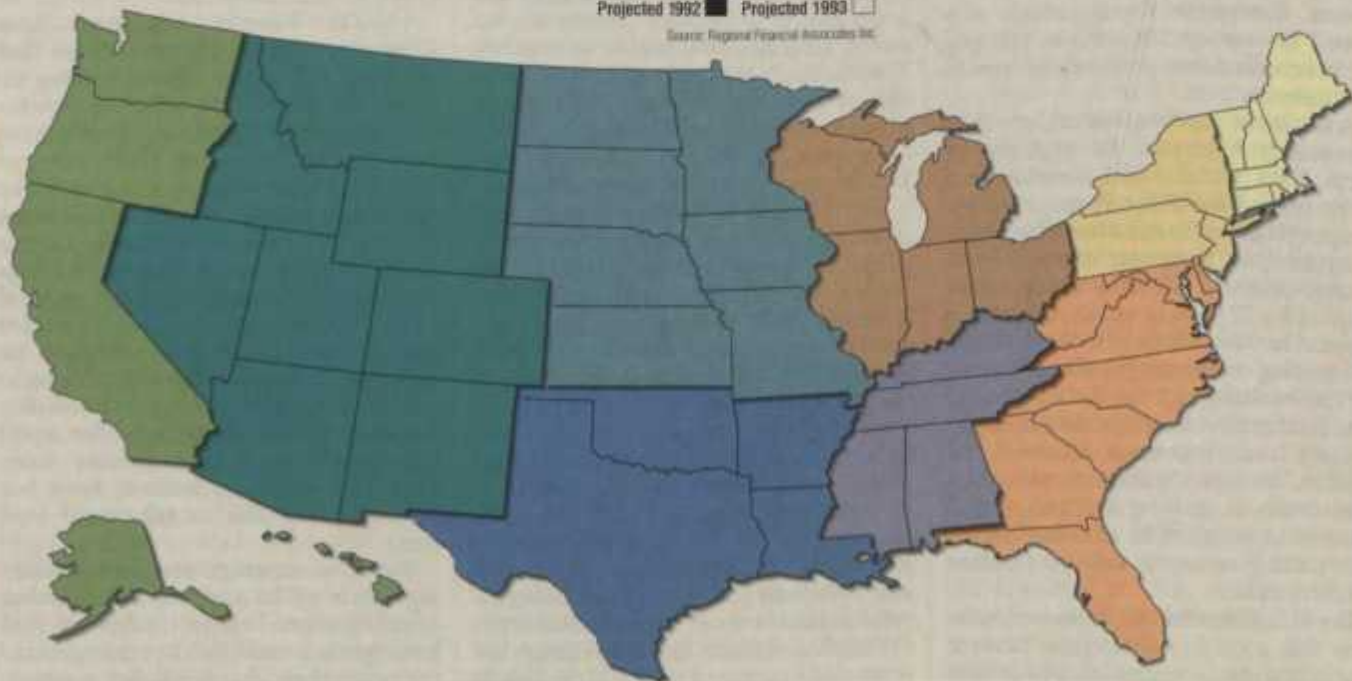
Finally, the South Atlantic states tend to turn around quickly from recession as tourism and population growth rebound. The net inflow of skilled workers has helped fuel solid regional economic growth in recent years. As the economy picks up, the South Atlantic region's textile, carpet, and furniture industries will show new life. And Florida will continue to benefit from its trade links with South and Central America.

Percentage Changes in GDP



Projected 1992 ■ Projected 1993 □

Source: Regional Financial Associates Inc.





are still in the works. Since the election, he has renewed his campaign pledge to push for development of a nationwide network of community banks that would provide capital for small businesses, especially in depressed inner-city areas. His idea is modeled on Chicago's South Shore Bank and the Elk Horn Bank in Arkadelphia, Ark.

South Shore has concentrated its lending on housing and has financed the renovation of one-third of the buildings on Chicago's depressed South Side. In contrast, Elk Horn Bank focuses on business lending and provides SBA-guaranteed loans, agricultural credit, and working capital, mostly to small businesses.

Perhaps the easiest way for the Clinton administration to boost small-business lending, according to Stanley, is to expand the SBA's guaranteed-loan program, designed for borrowers who can't otherwise secure a loan. The program is administered by banks and guarantees up to 85 percent of a loan if the borrower defaults.

In fiscal 1992, the program backed over \$6 billion in small-business loans, up 35 percent from the year before. The authorization for fiscal 1993 cuts the program in half.

"This program is woefully underfunded," says Stanley. "There is probably 10 times as much demand out there as we can supply." The program, he explains, actually needs only five cents in federal appropriation to back each dollar of loan guarantee. Using that formula, Stanley says, a \$500 million appropriation would permit \$10 billion in loan guarantees. The current appropriation is \$150 million.

Regulatory Relief

In addition to capital and credit, the cost of federal regulation looms large as a major concern for small business. This is an area where anxiety runs deep about the incoming Clinton administration.

Bill Peterson, president of Peterson Construction Inc., in McAllen, Texas, worries that the Clinton administration will mandate health-insurance coverage for all his employees. "If we had to cover everybody, it would really hurt us," he says.

In addition, Peterson expects that small firms' adversarial problems with the Occupational Safety and Health Administration (OSHA) "will only get worse." He says OSHA takes a punitive rather than cooperative approach to business.

Even if such fears prove unfounded, a four-year surge in government regulations already has taken a heavy toll on small enterprises, according to a new study conducted for the Republican staff

of the congressional Joint Economic Committee. The study, called "Derailing the Small Business Job Express," concluded that the government regulatory burden per worker has increased 34 percent since 1989, adding \$130 billion in new costs. (For more on the study, see Dateline: Washington, on Page 8.)

The study calculated the impact of the Fair Labor Standards Act of 1989 (which increased the minimum wage), the Americans with Disabilities Act of 1990, the Clean Air Act amendments of 1990, and the Civil Rights Act of 1991.

Summarizing the impact of these new regulatory initiatives, Rep. Dick Armey, R-Texas, the ranking Republican on the

provide health insurance for their workers and dependents.

■ A proposal to ban the permanent replacement of striking workers.

Small businesses also worry that Vice President-elect Gore will push for tougher environmental regulations when four major pieces of legislation come up for renewal: the solid-waste-disposal act; the Superfund law, which governs cleanup of toxic wastes; the Clean Water Act; and the Endangered Species Act.

The Clinton team has attempted to allay business fears of tougher regulations by advocating a "market-based" approach that is less rigid than the current approach. The market-based approach would use tax incentives to encourage compliance with regulations and would impose substantial fines on those who don't.

Moreover, Clinton has promised to enforce the Regulatory Flexibility Act's provisions for periodic review and rewriting of all regulations that have a significant economic impact on small business. As part of that review, he has suggested the development of regulatory short forms for small companies, similar to the short forms used to file federal income taxes.

New leadership at the Small Business Administration also ranks high on Clinton's list of changes needed to streamline small-business regulations. During the campaign, Clinton promised to appoint an SBA administrator and chief counsel for advocacy who are committed to safeguarding small companies from overregulation.

Clinton seems to be saying that regulation and strong economic growth don't have to be at odds, provided the regulators and business can work together to solve problems rather than fix blame.

This kind of thinking was a major theme throughout Clinton's campaign. As a candidate, he frequently challenged voters to "have the courage to change." In the spirit of that challenge, he pledged to seek new solutions to old problems.

Now that the voters have endorsed this concept, Clinton must deliver. For small companies eager to see a return to a vibrant economy, there is at least hope that the new administration will make good on its promises to keep their interests clearly in focus.

Says Archey, the U.S. Chamber's senior vice president for policy: "We want Clinton to succeed, because that means the country will succeed. It's a new ball game."

NE

Top 10 Small-Business Growth Industries (June 1991 to June 1992)

Industry	Employment Increase
Nursing and Personal-Care Facilities	55,600
Outpatient-Care Facilities	42,600
Office of Physicians	38,500
Residential Care Facilities	33,100
Miscellaneous Retail (mostly mail order)	28,300
Computer and Data-Processing Services	25,600
Individual and Family Services	20,800
New-Car and Used-Car Dealers	18,600
Miscellaneous Plastic Products	16,600
Trucking and Trucking Terminals	12,400

Source: U.S. Small Business Administration

Joint Economic Committee, says: "Federal government policies since 1989 amount to nothing less than economic crib death, suffocating jobs in the cradle of small business."

"To sustain economic recovery, policy-makers must reverse the regulatory trend and help small business," Armey continues. "Unfortunately, given the campaign promises made by President-elect Bill Clinton and his environmentally extreme running mate, this is unlikely."

Among the promises that most worry Clinton's critics are the following:

■ A proposed "training tax" that would require employers to spend 1.5 percent of payroll on continuing workers' education and training.

■ Mandated family and medical leave that would require employers with 50 or more workers to provide unpaid leave of up to 12 weeks to care for newborns or sick family members.

■ An indexed minimum wage that would keep pace with inflation.

■ A requirement for all companies to

To order reprints of this article, see Page 78.

The Clinton Agenda

By Robert T. Gray

Congress and the White House battled over line-item veto authority throughout the administrations of Presidents Reagan and Bush. The Democratic majorities on Capitol Hill refused to give those presidents the power to reject individual items in massive spending bills as an alternative to blanket approval or rejection of the entire measures.

The chief executives viewed the line-item veto procedure as a way to cut pork-barrel and other wasteful spending. The lawmakers saw it as an executive-branch attempt to usurp their powers.

Now it's Democrat Bill Clinton asking for line-item veto power. Aren't Democratic congressional leaders likely to yield to one of their own?

Not really. President-elect Clinton's chances of winning on that issue appear no greater than those of his predecessors. To Congress, it's a turf matter that transcends political ties.

That's just one instance in which the president-elect is discovering how things change between the campaign trail and the Oval Office.

He will find himself in many other disputes over his initiatives as the impact of each is weighed by one group or another.

To be sure, the president-elect plans a flurry of activity to win passage of major legislation early in his term—his benchmark is 100 days.

In addition to legislation to stimulate the economy, the focus over that period is likely to be on recycled issues—measures passed previously by Congress but successfully vetoed by President Bush. They include two measures strongly opposed by small business—a requirement that employers grant workers unpaid leave to

deal with family matters, and a total ban on permanent replacement of strikers.

But there is little likelihood that Congress will accept all or even most of the program he outlined during his campaign. In fact, he is likely to modify or even defer parts of that agenda in the face of

Here are the president-elect's recommendations on legislative issues of importance to business.

story—the 1993 Small Business Outlook—on Page 16.)

Other areas in which business and the new administration will have opportunities to work together toward common goals include education and training, progress in technology, and rebuilding the infrastructure.

All are geared to business recognition of the steps that need to be taken to enable the nation to be more competitive.

As foreign trade and technology become increasingly critical elements in maintaining a healthy U.S. economy, the need for workers with skills up to the demands of the 21st-century workplace grows accordingly.

That's why business has taken a leadership role in efforts to improve the quality of U.S. education and training, which are also goals of the Clinton administration.

Technological innovation is another area in which both the business community and the new administration have many joint goals and the potential for establishing a good working relationship.

The same is true for bringing the nation's infrastructure up to the standards that are needed to provide the transportation networks and services that a vibrant economy requires.

The extent to which business and the administration will work cooperatively across the broad spectrum of issues is yet to be determined, but the potential exists for achieving common ground in many.

Here is a summary of Clinton proposals that will be at the core of his administration's dealings with business:

Infrastructure

Transportation: Repair roads, bridges, and railroads; develop a high-speed rail network; apply technology to



PHOTO: EDWARD POLLACK—THE STOCK MARKET

Infrastructure improvements—such as better highways and high-speed rail networks—are among President-elect Clinton's priorities.

changing circumstances and anticipated legislative response.

He will also need time to translate that agenda into legislation. That will require some basic decisions, particularly when it comes to balancing his goals of stimulating the economy and cutting the annual deficit in half by 1996.

In its analysis of the Clinton legislative program, the U.S. Chamber of Commerce identifies his fiscal-stimulus proposals and deficit-reduction plans as consensus issues but notes that the latter could be a constraint on the former.

There are opportunities for business to work with the new administration, the Chamber says, on such economic issues as reduction of the tax burden on capital, reduced banking regulation, spending priorities, and a balanced-budget amendment to the Constitution. (Details on near-term implications of Clinton's economic proposals appear in the main cover

improve traffic flow and maintain roads; and build high-tech, short-haul aircraft.

Communications: Create a national information network.

Environment: Use new technologies to prevent and deal with problems; increase energy efficiency.

Community and Urban Development: Target block grants to rebuild urban roads, bridges, water- and sewage-treatment plants, and low-income housing.

Health Care

Small Business: Encourage smaller firms to provide private insurance coverage through purchasing pools and by offering them tax credits. (Business is concerned that some form of coverage mandate on employers will develop.)

Costs: Establish a federal panel to set national benefits standards and health-spending targets. States would implement those provisions. Financing for the estimated \$30 billion additional cost for the Clinton health plan is unspecified.

Administration: Cut costs through standardized, electronic claims processing and record keeping.

Education And Job Training

Education Goals: Develop world-class standards in core academic subject areas and a national examination system to measure progress. Develop a national apprenticeship program and an initiative to prevent dropouts.

Technology: Implement programs essential to a technologically literate society; infuse technology into education and training.

Postsecondary Degrees: Replace the existing student-loan structure with a trust fund enabling students of all income levels to borrow money to continue their education beyond high school. Borrowers could repay the money directly or work off loans through community service.

Training Assessment: Employers of 50 or more workers would have to spend 1.5 percent of gross payroll on training. Details on what would qualify as training and how programs would be monitored are to be proposed.

Environment

Environment/Economy: Relate environmental protection to economic growth. There has been no elaboration of how this goal would be achieved.

Market Strategies: Reward conservation and "green" business practices. Details have not been forthcoming.

Solid Waste: National requirement for deposits on beverage containers, mandatory recycling.

Greenhouse Gases: A carbon tax to reduce emissions alleged to cause the greenhouse effect.

International Relations: Use trade measures to impose environmental standards on other nations.

Energy/Natural Resources

Conservation/Efficiency: Twenty percent increase in energy efficiency by 2000; increase in Corporate Average Fuel Economy (CAFE) standards to 40 miles per gallon by 2000, depending on the availability of feasible technology.

Renewable Energy/Clean Coal: Create a "civilian advanced research agency" to support renewable energy and technologies. Shift national laboratories now focused on defense research and develop-



PHOTO: STUM TRACY-THE STOCK MARKET

Higher academic standards and a national apprenticeship program are key elements of the president-elect's goals in education.

ment to commercial renewable-energy projects.

Natural Gas: Expand markets for natural gas, streamline federal certification of natural-gas pipelines, and convert federal vehicle fleets to natural gas.

Energy Taxes: Impose a revenue-neutral carbon tax (other taxes would be reduced to offset this levy) if it could be accomplished without hampering industrial competitiveness or raising consumer utility rates; oppose an increase in the federal gasoline tax.

Nuclear Energy: Defer increased reliance on nuclear power and streamlined licensing of nuclear power plants until "all safety issues are resolved."

Offshore Energy Development: Adopt a balanced approach to oil and gas development on the outer continental shelf but bar drilling in the Florida Keys and offshore California.

Labor And Human Resources

Employment Law Reform: Enact a ban on permanent replacement of strikers, approve family/medical leave, reform the Occupational Safety and Health Act, and index the minimum wage.

Section 14(b): Sign a bill repealing this National Labor Relations Act provision that allows states to adopt right-to-work laws.

International Trade

Foreign Policy/Economics: Create an Economic Security Council that would advise the president on economic policy generally and would pursue fairness for U.S. exports more aggressively, thereby putting the formulation of foreign policy and economic policy on equal terms.

North American Free Trade Agreement: Support this pact on the condition that protections for environmental and worker concerns be strengthened.

General Agreement on Tariffs and Trade: Support on the same conditions applied to the North American Free Trade Agreement.

Trade Law: Re-enact Super 301, which enables the U.S. to address structural trade barriers erected by trading partners, and generally take tougher action to ensure that legitimate U.S. trade interests are defended.

Economic Sanctions: Link most-favored-nation status for China to an improved human-rights/democratization record. (President-elect Clinton's comments concerning other parts of the world suggest a general inclination to use unilateral economic sanctions more freely.)

Foreign Tax Issues: Require foreign-controlled companies to "pay their fair share" of taxes.

In another key area of business concern, government regulation, the president-elect has not defined his position on such critical issues as reform of the civil-justice system generally and of the current product-liability statutes.

An agenda like the one detailed above obviously does not lend itself to 100-day treatment, and action on most of these issues will extend well into the new president's term.

It appears certain that what's known in Washington as the "Carter syndrome" will deter Clinton from trying to push for too much too fast. The reference is to the former president's tendency to press too many proposals at one time.

What that strategy achieved for President Carter is not what President Clinton has in mind as he begins to organize his agenda on a priority basis.

Business-Bred Lawmakers

By David Warner

The new members of Congress include more than a dozen who know first-hand what it takes to run a small business and what kind of business climate allows small firms to thrive.

That number may not be large—just 12 percent of the freshman class—but it's nearly double the number of small-business people elected to Congress in 1990. Nearly three dozen small-business people ran for Congress in 1992, and many experts on Congress believe that both the number of business people who ran and the number elected last year were historic highs.

Although the majority of lawmakers in 1993 will still be lawyers or career politicians, small-business people will be as well-represented in Congress as at any time in the past 50 years.

"Clearly, in the last 40 years or so, lawyers have dominated" Congress, says Norman Ornstein, a resident scholar and expert on Congress with the American Enterprise Institute, a public-policy research center in Washington, D.C. "We're starting to get a little more diversity now."

And that diversity means greater awareness, at least on the part of many new lawmakers, that the nation's small-business people are concerned about such issues as the federal budget deficit, taxes, regulation, and rising health-care costs.

"We'll have a few more live bodies in Congress who've had to meet a payroll, who've had to deal with government regulations and taxes, and who've had the responsibility of looking out for the welfare of their employees," says Christine Russell, House lobbyist for the U.S. Chamber of Commerce.

Most of the new small-business legislators elected last November have never held public office, but they bring to their new jobs an experience many believe is



PHOTO: HEART BARTHOLMEW

Rep. Howard "Buck" McKeon of California, a co-owner of Western-wear stores, wants government off business's back.

sorely lacking in Congress: business sense.

In interviews with *Nation's Business* following their election, some of the new small-business lawmakers discussed their concerns about the state of the economy, the legislative solutions they believe will strengthen it, and the importance of a healthy small-business sector.

Howard P. "Buck" McKeon, California, 25th District

"We need the economy stimulated," says Howard P. "Buck" McKeon. "There have been too many taxes and regulations put on business. There's just a real disincentive for business people to do anything, and that needs to be changed."

McKeon says he supports an investment-tax credit, a cut in the capital-gains tax, and banking and regulatory reform to energize the economy. Reforming the health-care system is another of his top priorities.

McKeon and his four brothers own 51 Western-wear stores, mostly throughout California. "I look at what it was like when Dad opened the first store—29 years ago—and how easy it was compared to what it is now and how much red tape you have," he says. "I understand how [gov-

Several new members of Congress bring a business perspective to issues such as spending, taxes, regulation, and health-care costs.

ernment] interjects in our lives, and I want to get it out of our lives."

For example, McKeon, a Republican in a newly drawn district, says he doesn't want to see health-care requirements mandated by Congress and "placed on the back of business." He says Congress has "lost touch with the real world. In retailing, we learn that the customer is boss. I think that's the way politics is—the people are boss."

Terry Everett, Alabama, Second District

Terry Everett's chief concern as a businessman and now as a congressman from Alabama is, like that of a number of his freshman colleagues, health-care reform. Although he's not sure what approach to take to fix the health-care system, Everett says: "We've got to do something. It's just really unaffordable for a small businessman and his employees." He opposes a "play-or-pay" system of mandated health coverage.

Everett owns the *Union Springs Herald*, a newspaper in Union Springs, Ala. He also owns a home-building business and a 400-acre farm in Enterprise, Ala.

Federal regulation is another area of concern, says Everett, a Republican. "Small-business folks are hollering about regulations, and I think... we need to make the Congress live under the same sort of regulations we make small business live under." Placing such requirements on Congress, he says, would probably stem the tide of legislative proposals for government mandates on business.

Everett also believes he has a sure-fire solution for making Congress more responsive to the needs of small business: "Pass a law that would require that before anyone could serve in the House or Senate they either operate a small business or work for commission for a couple of years."

"If we had that simple law, I could guarantee you wouldn't find some of the silly rules and regulations and actions by the Congress that actually halt jobs."

Joe Knollenberg, Michigan, 11th District

For Joe Knollenberg, running a business while trying to contend with government rules, regulations, and taxes is a family affair. Knollenberg and his oldest son own an Allstate Insurance agency in Troy, Mich. Another son is an employee of the company. In addition, Knollenberg's wife, Sandie, operates an aerobics business—

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based in Troy—which he helped establish. “I feel very strongly about small business,” he says. “It’s the area of growth in this country. Government has to realize that people don’t go into business unless they’ve got a chance of succeeding, and so many of them don’t. We’re making it too tough.”

Government mandates and regulations top his target list, says Knollenberg, who also believes health-care reform is vital. He says the country needs a health-care product that is market-driven and makes consumers responsible for part of the cost through means such as deductibles and copayments. He also is calling for medical malpractice reform and tax incentives for companies to purchase health care to “put everyone on a level playing field.”

With large firms downsizing, says Knollenberg, small business is the nation’s salvation. “It’s the small businesses that are going to pay the way. And to allow them the freedom to expand, to stimulate growth, to bring people on the payrolls, they’re going to need a little help.”

It would be most helpful, says the Republican, for Congress to attack the budget deficit. During his quest for the seat of retiring GOP Rep. William S. Broomfield, Knollenberg campaigned strongly on reducing the deficit through cuts in entitlement programs and government spending. “We’ve just overspent ourselves silly,” he says.

Knollenberg supports a balanced-budget amendment to the Constitution and wants to cut the tax on capital gains.

Richard Pombo, California, 11th District

Richard Pombo, 32 as of Jan. 8, is one of the youngest of the incoming freshmen. Yet he has been a small-business owner for the past 10 years. He and his two brothers and father are partners in the R. Pombo Ranch, a 2,500-head cattle feed lot in Tracy, Calif. They also run a trucking company in Tracy that hauls cattle feed and livestock.

Pombo says the biggest change in operating the business in his 10 years on the job—and the area he will focus on when he gets to Washington—is the increase in regulations and the accompanying paperwork.

“My time has increasingly been spent filling out forms and



PHOTO: JAMES COOK

Colorado’s new senator, Ben Nighthorse Campbell, a congressman since 1987, knows small business’s concerns.

trying to comply with new regulations,” Pombo says. “We’ve gone from a relatively simple business to one that is very heavily regulated.” He cited the weekly health and truck-safety inspections at the ranch carried out by state employees on behalf of federal agencies. “We need to take another look at a lot of the regulations that have been passed and make sure that they are accomplishing the goals for which they were set up and that they haven’t just become a burden on the small-business person,” Pombo says.

The federal Endangered Species Act is one of the statutes the Republican be-

lieves needs a closer look. His ranch is in the middle of what has been designated a Kit fox habitat even though in the 25 years since the ranch was started, the Pombos, he says, have never seen “anything even resembling a Kit fox.”

Because the Kit fox is on the nation’s endangered-species list, he says, he doesn’t know how the law will be interpreted a year from now “and what effect it will have on my operation as a feedlot.”

While use of his land has not been restricted, development as well as farming and ranching practices have been limited on other such lands in California.

Dan Miller, Florida, 13th District

Government regulations also have raised the ire of Dan Miller, the new representative of Florida’s newly drawn 13th District.

For example, Miller says federal and state rules are requiring the heating of attic space in a nursing home operated by his company, Miller Enterprises, of Bradenton. He says it will cost \$30,000 to heat the space to ensure that pipes for the home’s fire sprinkler system don’t freeze. The nursing home is located in Bradenton, where the temperature typically drops below freezing for a few hours no more than once every couple of years. “That’s the type of regulation that drives you crazy as a businessman,” says Miller, a former college professor of business.

The rising cost of health care is also a concern for Miller. With 300 employees in several businesses, including a restaurant, a plastics-manufacturing company, and a wholesale store selling tropical fish and reptiles, Miller Enterprises is paying a hefty sum for workers’ health-care coverage.

Miller says the U.S. “is spending 14 percent of its gross national product on health care, far more than any other industrialized country. We have good quality care, it’s just too costly.”

Miller, a Republican, says Congress must look at the issues of health-care costs and accessibility, especially as they relate to small business. He hopes to help formulate legislation that will address the health-care crisis, which he says should include a cap on awards for medical-malpractice lawsuits.

Like any successful business person, Miller is concerned about his firm’s finan-



PHOTO: GREG FORD

New congressman Dan Miller of Florida, at his Pier Restaurant in Bradenton, advocates health-care reform.

cial health. To address the nation's fiscal woes, Miller, like many of his new small-business colleagues in the 103rd Congress, is calling for a balanced-budget amendment to the Constitution, authority for the president to veto line items in appropriations bills, and spending cuts to tackle the budget deficit.

Michael "Mac" Collins, Georgia, Third District Righting the economy is also a top priority for Michael "Mac" Collins. "The most-needed legislation is some tax reform that will stimulate the economy and put people back to work, put people back on the payrolls where they become taxpayers rather than recipients of unemployment insurance," says Collins. He had served in the Georgia Senate since 1989, and he defeated Democratic incumbent Richard Ray for the U.S. House seat.

Collins, a Republican, also is president of Collins Trucking Co. Inc., a 35-employee family business that employs his wife, son, daughter-in-law, and a brother-in-law.

Collins supports an investment tax credit and a capital-gains tax cut to boost the economy and, thus, small firms. "If you stimulate the cash flow in the private sector, that itself will stimulate small business," he says. "Small business is the major employer among all businesses."

Ben Nighthorse Campbell, Colorado, Senate

A member of the U.S. House of Representatives since 1987, Ben Nighthorse Campbell, a Democrat from Colorado, was elected to the U.S. Senate this past November. He has many years of small-business experience, and he says he "understands all the problems small businesses go through trying to grow."

His son, Colin, and wife, Linda, are running the jewelry business Campbell started in the late 1960s, and they are trying to cope with the problems facing most small firms, he says. Campbell now does *pro bono* consulting for the business, which makes contemporary Southwest jewelry, using mostly Native American designs. (Campbell is partly American Indian.)

Last year, Campbell co-sponsored House legislation that called for a balanced-budget amendment. He says he also would like to see an increase in the health-care deduction for the self-employed and for unincorporated small firms, which currently is 25 percent, compared with 100 percent for large businesses. He also favors a cut in the capital-gains tax. "I think [the capital-gains tax] ought to be repealed, frankly," he says.

Campbell, who replaced retiring Democrat Sen. Timothy E. Wirth, also would support some restructuring of the tax system to provide incentives for small-business start-ups. Campbell says the

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current system makes it very hard for small, growing companies to make a profit.

"If you take away the profit motive, what's the use of being in business?" he asks rhetorically. "It seems to me we've got to set a system where that profit motive is kept intact. And to do that, I think, we need to change the tax structure to make it more conducive for people to get into small business."

Michael Huffington, California, 22nd District

The new House member from California's newly drawn 22nd District, Michael Huffington, got into small business five years ago when he helped form Crest Films Ltd., which makes advertisements and movie specials for television. He owns 50 percent of the company.

Although he supports budget- and tax-reform proposals such as a line-item veto, a balanced-budget amendment, a capital-gains tax cut, and a tax exemption on interest earned on some amount of savings, Huffington believes reform of the congressional system is paramount. "Until we change the 'old-boy system' [in Congress], we're not going to make as much progress as we need to," says Huffington, who defeated nine-term GOP Rep. Robert J. Lagomarsino in the primary.

The Stanford- and Harvard-educated businessman wants Congress to have term limits for all lawmakers, to have a committee system based on expertise rather than seniority, and to abide by the laws it imposes on the public.

Jay Kim, California, 41st District

Jay Kim, the new Republican representative from the new 41st District in California, also would like to see government reforms. In fact, he'd like to cut the size of government in half.

"I think government has to be trimmed down," says Kim. "It's way too big, to the point where ingenuity has been stifled. In other countries, the government is actually assisting businesses; the government acts like a public-relations firm representing businesses and helping them. But here, [government] is very, very hostile" to business.

That hostility is reflected in overregulation of business, mountains of government paperwork, and "punitive" taxes, says Kim, who is the owner and president of



PHOTO: SUSAN FARRIS-BLACK STAR

Joe Knollenberg, a freshman representative from Michigan, favors cuts in government mandates.

Jaykim Engineers Inc., in Diamond Bar, Calif., where he is also the mayor. The 15-year-old, 130-employee firm specializes in designing infrastructure projects, such as roads and waste-water systems.

Kim believes that privatizing certain services now performed by the federal government would ease some of that hostility and help business and the economy.

"The problem with government is that it's a monopoly, there's no competition," Kim says. "Competition makes this country great."

Tax incentives for business and an across-the-board cut in the capital-gains tax to 15 percent are also high on his priority list, adds Kim, who says he would like to serve on the Small Business and Public Works committees.

Lauch Faircloth, North Carolina, Senate

Lauch Faircloth, a Republican who defeated incumbent Democrat Terry Sanford for a Senate seat from North Carolina, says that adoption of his campaign platform would go a long way toward creating a climate for small-business growth.

"My platform was less spending and no new taxes. Less government, less rules, less regulations," Faircloth says. He also supports a capital-gains tax cut.

Faircloth, who operates a hog-and-cattle farm near Clinton, N.C., and owns commercial real estate, says congressional lawmakers also must stem the ever-growing federal deficit. "Either we bring the deficit under control, or we're in for some sort of economic catastrophe," he warns. "[Spending] has been absolutely out of control."

Martin Hoke, Ohio, 10th District

Martin Hoke, an Ohio businessman, says congressional reform, health care, and income-tax reform will be his top priorities in Congress. He defeated 16-year Democratic incumbent Mary Rose Oakar.

Hoke wants Congress to be subject to the laws it passes, and he advocates restructuring of the congressional committee system, term limits for lawmakers, cuts in lawmakers' staffs, and reductions in free congressional mailings.

On the health-care problem, Hoke says, "If we don't get market-driven reform, we're going to see a single-payer, national health initiative."

Hoke, a Republican who started a car-care company and was in the cellular-car-phone business before running for office, is also concerned about the increase in regulations that apply directly to small business and the adverse effects that he says taxes are having on the economy. "We have really squeezed the potential for the American dream out of the hands of the middle class by overburdening it with taxes," he says.

When asked why they wanted to leave the comforts of home and successful businesses to come to Washington, nearly every small-business person elected to the 103rd Congress had the same reply: frustration with entrenched Washington politicians.

Frustration with career politicians micromanaging his businesses certainly was a motivating factor in Jay Dickey's decision to run for Arkansas' 4th District seat, he says.

A Republican who is taking the seat of long-time Democratic incumbent Beryl Anthony Jr., Dickey owns two Taco Bell restaurant franchises, a sign company, and a travel agency in the state. He says he has "felt like a victim" of Congress, particularly in dealing with federal regulations.

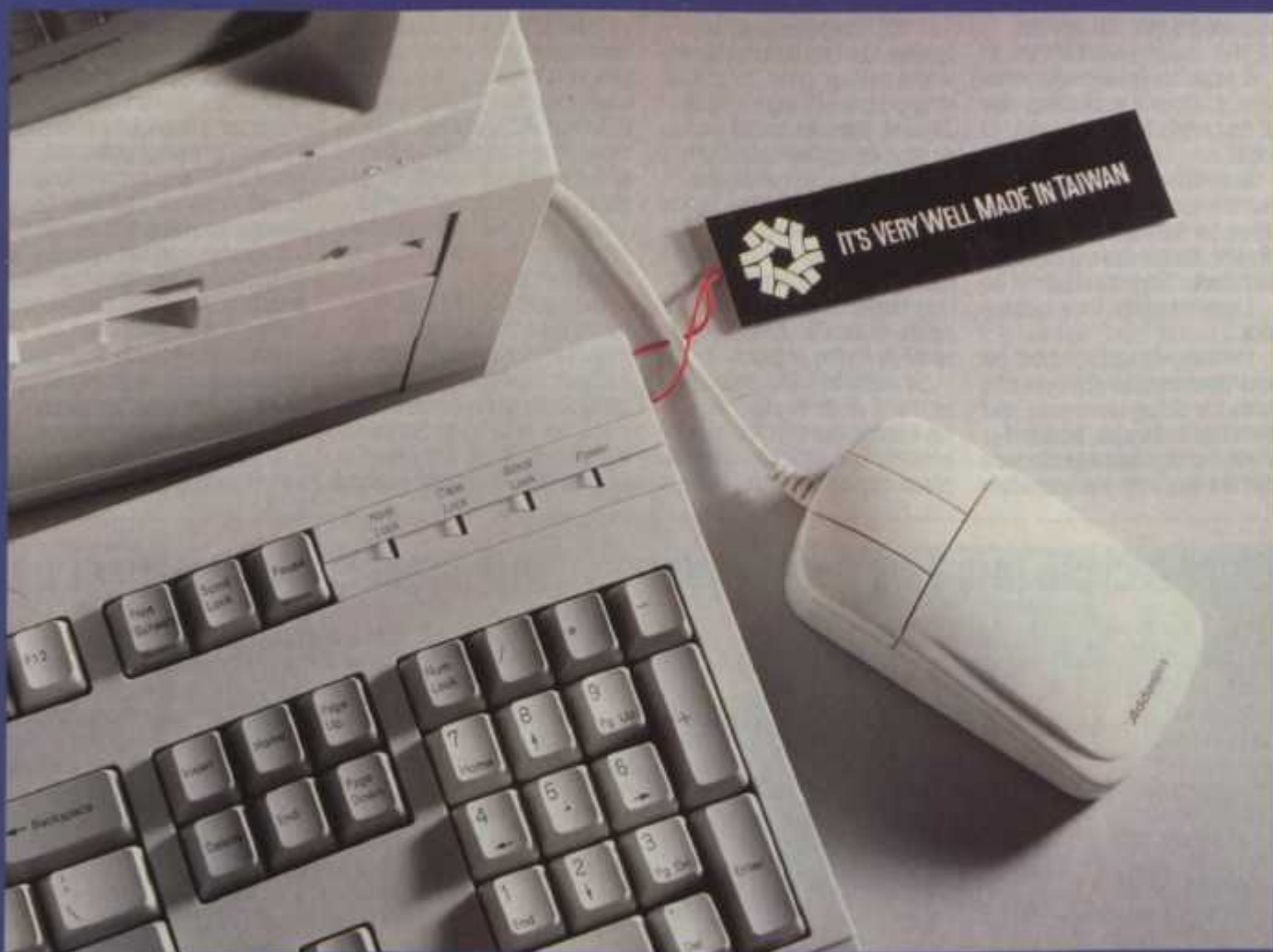
Pombo of California says the "frustration of trying to run a business, trying to employ people, trying to raise my family with a federal government that seemed more and more out of touch with the real world" prompted him to run for Congress.

This issue of losing touch is a potent one in congressional politics. It has been used successfully by challengers against veteran incumbents many times. And a significant number of legislators who won with the help of the "losing touch" issue have found it turned against themselves as their Washington service lengthened.

Could that happen to the entrepreneurs now taking seats as new members of Congress? Florida's Dan Miller has an answer that is widely shared in their ranks: "I'm not going [to Washington] to make a career" out of politics, he says. "I'm going there to try my best to address our problems."



IT'S VERY WELL
MADE IN TAIWAN





IT'S VERY WELL MADE IN TAIWAN

Not long ago, Agustin Tingsu Liu, secretary general of the China External Trade Development Council, known as CETRA, made a business trip to Los Angeles. During some free time, Liu took a walk along one of that city's upscale boulevards.

A stylish dining room ensemble showcased in the window of a furniture store caught his eye. On the table was a sign that read, "Styled in Italy."

Liu went inside for a closer look.

He was not surprised but he was distressed to discover that while the dining room suite was sketched in Europe, as advertised, the sign failed to disclose that the furniture was manufac-

tured in Liu's homeland, the Republic of China (ROC) on Taiwan.

The store owner volunteered that fact only reluctantly for fear, he told Liu, that customers would not pay premium prices for products bearing a "Made in Taiwan" label no matter how much they appealed to them.

"There is still a wide gap between the world's perception of Taiwan's [product quality] and our products' actual high quality now," Liu laments, but only briefly. It simply is not the nature of the Chinese of Taiwan to dwell on the negative.

So with the same enthusiasm and determination they have employed over the past 40 years to turn an impoverished island into an industrial dy-

namo, Liu and others in the ROC government are now embarking on a global education campaign. The lofty goal of the so-called Image Enhancement Plan and related private-sector efforts is teaching consumers worldwide that products made in Taiwan ROC are the equal of those made anywhere now in terms of design, quality, and price and in terms of helping Taiwan manufacturers establish strong global corporate and brand identities.

ROC officials and leading members of its business community freely acknowledge that carrying news of Taiwan's quality revolution around the globe will take some time and substantial effort. But, they quickly remind skeptics, so did

elevating their nation's economy and technology base to their current world-class status.

Just four decades ago, the ROC on Taiwan was among the poorest nations on earth, and its residents, many of them rice or banana farmers, earned only about \$145 a year on average. The island's first four-year economic plan, launched in 1953, led to increased farm productivity and set the stage for the emergence of small food-processing and canning businesses. Small textile firms also began popping up at this time; so did a modest construction and building-supply industry.

Economic plans during the early 1960s provided incen-

Giant Bicycle Inc. Fills A Tall Order

Attaining the No. 3 position in five short years in a U.S. market crowded with fierce competitors is a mighty tall order—tall enough only for a Giant.

Giant Bicycle Inc., whose parent company is Giant Worldwide of Taiwan, entered the U.S. independent bicycle dealer market in 1987 with a simple, successful philosophy: Offer a sophisticated product at a fair price, and build the strongest dealer relationships in the industry.

The company, which is headquartered in Rancho Dominguez, Calif., became an overnight success among dealers and consumers alike. They were enthralled by Giant's full line of state-of-the-art products and its unmistakable commitment to service.

After only its first year in business, Giant's sales reached approximately \$6.5



million through 500 dealers throughout the U.S. Last year, sales were 10 times that amount through some 1,600 dealers.

Giant now also distributes a line of high-tech fitness equipment, as well as bicycle parts and accessories.

Giant strengthened its reputation as an innovator by introducing its Ready-to-Ride program in 1991. Under the program, Giant ships bicycles to dealers virtually ready to be ridden by customers, thus reducing dealers' preparation times and increasing their profitability.

But perhaps most important to its future,



Bikes and exercise equipment from Giant Bicycle Inc. have won awards for performance and value.

Giant is a leader in product development. In 1991, the company introduced its Cadex line of high-tech competition bicycles, which are constructed with carbon fiber frames.

The company's innovation and value have not gone unnoticed: Mountain and City Biking magazine recently named the Giant ATX 770 mountain bike its "1992 Bike of the Year." In addition, a leading consumer-advocate magazine named the Giant Iguana the "Best Buy" in mountain bikes.



tives for the founding of export businesses in a variety of labor-intensive industries. The first export-processing zone was established in 1966, and it attracted the foreign investment the ROC on Taiwan needed to broaden its industrial base. By decade's end, countless, mostly family-owned Taiwanese firms were producing and shipping throughout the world a wide variety of generally low-technology, labor-intensive consumer goods such as synthetic fibers and finished clothing, no-frills radios and televisions, and toys and housewares.

In the 1970s, the ROC government nurtured its infant heavy industries, including iron and steel making, shipping,

petrochemical production, and auto manufacturing. These industries provided Taiwan's small and medium-sized exporters of light manufactured goods with the infrastructure resources they needed to continue prospering. However, exports continued to be globally competitive because of their low price, not their high quality.

"Twenty years ago, you still could only find Taiwan products in the basements of U.S. department stores," remarks Eric C. C. Chiang, the Taipei-based deputy director of the Department of International Information Service of the ROC on Taiwan's Government Information Office.

The 1980s also were boom times in Taiwan. Government

policies continued to encourage exporting, and Taiwan's high-volume manufacturers of low-profit-margin goods continued doing just that with stunning success. Also during this period, progressive, well-established companies began sharply improving quality and paying more attention to developing indigenous technology. But that technological progress largely remained a secret to overseas consumers.

Living standards also continued improving throughout the 1980s, and the value of the ROC's currency, the New Taiwan dollar, began rising sharply.

Moreover, the ruling Kuomintang Party (KMT) began the process, now virtually com-

pleted, of smoothly and peacefully transforming the ROC's system of government from authoritarian to democratic.

The ROC that has emerged in the 1990s is a mature industrial nation, even though Taiwan is not much larger than West Virginia and about 75 percent of the island is mountainous. The per-capita income of Taiwan's roughly 20 million people is about \$10,000 a year, its unemployment rate is less than 2 percent, and its gross national product per capita is higher than oil-rich Saudi Arabia's and twice that of the European Community's Greece and Portugal.

The ROC's current combined level of exports and imports ranks as the 12th highest in the

An Innovator Worth Emulating

If one company and one man in Taiwan could typify the efforts of the nation's entire high-tech business community to innovate technology, the company would be Taiwan's only billion-dollar firm, Acer Inc., and the man would be Stan Shih, Acer's founder, chairman, and chief executive officer.

Shih founded Acer 16 years ago with only 11 employees and \$25,000 in working capital. The firm now has more than 5,000 employees in 50 facilities worldwide.

Countless firms in Taiwan have grown dramatically during some or all of the past four decades.

What separates Acer from the pack is Shih's longstanding commitment to research and development and the extent to which the company has been able to incorporate the resulting technology into products.

Many of Acer's full line of computer products—ranging from notebook PCs to

high-powered multiuser systems—have won awards of excellence in the U.S., Europe, and Japan.

The company boasts a long list of industry "firsts," including a 486SX PC that can be upgraded to an even faster system by merely replacing a single processor chip.

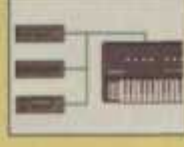
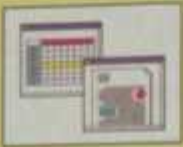
One of Acer's most appealing new products is the Acer Personal Activity Center, a full-featured PC packaged with hardware and software that allows users to send and receive faxes, that serves as a telephone-answering machine, runs CD-ROM programs, and even plays audio compact discs and receives and plays AM and FM radio broadcasts.

A unique graphical interface makes



The Acer Personal Activity Center features a unique graphical interface that makes operation intuitive and easy, as evidenced by the icons below.

operation intuitive and easy, and an equally unique StartSmart feature allows communications features to remain in operation even when the PC is shut off.



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Today, many of the finest products in the world come with a new and very exclusive label.

Introducing Taiwan's Symbol of Excellence.

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We were the first to take carbon fiber graphite from rockets and put it into racquets to make them stronger, lighter and more flexible. So you can serve some "rockets" of your own.

In computers, we offer you another first. The first computer



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that automatically upgrades to five times its power by simply plugging in a microchip. It's breakthrough technology that doesn't break your budget.

And recently, one of our mountain bikes was named 1992 Bike of the Year by Mountain Biking magazine. "...It's an outstanding achievement in quality, value and performance."

But our biggest advancement is making this cutting-edge technology and world-class quality surprisingly affordable.

So the next time you see this symbol on our products, you'll know exactly what it represents:

Excellence, Made in Taiwan.



IT'S VERY WELL MADE IN TAIWAN



IT'S VERY WELL MADE IN TAIWAN

world, and its almost \$90 billion in foreign exchange reserves are unsurpassed.

Yet although the ROC has emerged triumphant from its Industrial Revolution, that victory has taken its toll on the island. And, as Liu of CETRA's experience in the California furniture store starkly demonstrates, tough new marketing and image battles lie ahead for the ROC government and Taiwan's business community.

Tsu-Kan Tsui, vice chairman of the ROC Council for Economic Planning and Development, explains: "Over the last 30 years, we have enjoyed remarkable sustained growth averaging almost 9 percent

annually, although the growth rate [in 1991] was 7.3 percent [and the 1992 rate] is about 7 percent.

"But over the years we [in government] have perhaps given too much emphasis to development of exports [in pursuit of economic growth], and exporting to the world market has become a status symbol for those in our business community."

One detrimental effect of this near obsession with exporting has been "great neglect of our infrastructure and environment," says Tsui.

Consequently, the ROC's current economic plan, which encompasses most of the rest of this century, envisions spending more than \$300 bil-

lion on about 775 individual projects involving almost every infrastructure item from public works to higher education. Much of the spending will be on big-ticket projects such as road, rail, and light-transit systems.

Also envisioned are large numbers of pollution-control and other environment projects, space-age telecommunications and energy-production facilities, and additional colleges and universities.

Moreover, ROC planners hope to continue expanding their economy by about 7 percent a year for the duration of the plan by giving all Taiwan businesses the wherewithal to continue improving product quality so as to keep them

competitive in today's tough global economy.

Government officials especially aim to boost companies in what Tsui terms "the 10 newly emerging industries." They are advanced materials, aerospace, consumer electronics, information processing, medical and health care, pollution control, precision machinery and automation, semiconductors, specialty chemicals and pharmaceuticals, and telecommunications.

These industries, says Tsui, are engaged in "eight key technologies for the next century": applied materials, biotechnology, computer software, energy conservation, industrial automation, natural resource development, opto-

A Revolutionary Umbrella

What do a 1,000-year-old Chinese national treasure, an innovative Taiwan businessman, Pablo Picasso, and Japan's Rising Sun flag have in common?

They're all part of the story of a revolutionary change in umbrella design that can make staying dry in a downpour less costly and more fashionable.

No one knows who invented the first umbrella, but it probably consisted of little more than a large leaf held overhead. But we do know that for about 500 years, the basic parasol design has remained unchanged: four to 10 separate pieces of fabric sewn together—usually by hand—and stretched over a frame.

It's hard to knock this traditional design: It has kept people dry for five centuries. Yet the multipanel method has two major flaws.

First, the seams between individual pieces of fabric are the umbrella's weakest points; and if but a few stitches are ripped out by strong wind, you're toting a sieve instead of protection from "pennies from heaven."

Second, the multipanel design puts a damper on an umbrella's fashion potential: Aligning panels with an intricate design is like wallpapering, and if the patterns don't



match up perfectly, you end up with an eyesore instead of a masterpiece.

"Umbrellologists" have recognized this problem for decades. They even know the solution: an umbrella created from a single piece of fabric. What they didn't know was how to construct a working umbrella from a single piece of cloth.

Then along came Chen-men Lai, the

innovative general manager of the Taiwan-based Pro Umbrella Enterprise Co. For many of his 15 years in parasol production, Lai had dreamed of reproducing traditional Chinese and other renowned art and even national flags on his products. But those plans had always been foiled by the multipanel problem.

"I had always waited for someone else to solve that problem," Lai recalls. But one day he resolved to solve it himself, and parasols will never be the same.

Like so many innovative breakthroughs, Lai's process is deceptively simple. The secret lies in the angle at which the ribs of the umbrella intersect with the so-called warp—the threads that run lengthwise in a fabric. If you get the correct number of ribs at a proper angle to the warp, then you have a working, single-panel umbrella. And that is what Lai accomplished.

Lai's breakthrough has revolutionized umbrella design and earned him patents in the U.S., Germany, Italy, Taiwan, and mainland China. Patents are pending in many other countries, including Japan, Canada, France, and England.

Even if you're not into umbrella aesthetics, Lai's process could mean a few extra dollars in your pocket: Fewer costly hand-sewn seams mean lower manufacturing costs; lower manufacturing costs mean lower parasol prices.



electronics, and sensors.

If those industries and technologies seem virtually identical to those on comparable wish lists being drawn up today in the world's most economically powerful industrialized democracies such as the U.S. and Japan, it's because they are. The ROC is aiming to join nations of that stature sooner rather than later.

The ROC cannot afford to aim lower, says Tsui, because in a sense its companies are victims of their own success. To explain this apparent paradox, he lists factors now forcing Taiwan's businesses to move upscale, relocate, or die. The list includes the aforementioned evaluation of the New Taiwan dollar, increases

in per-capita income, and shortage of workers in some industries.

"Those factors and even more have forced the cost of production [in the ROC] up higher than ever before," says Dr. P.K. Chiang, the nation's senior vice minister of economic affairs. "We can no longer compete with low-wage nations such as Indonesia, the Philippines, Malaysia, and Thailand on the basis of price alone; we now have to compete on quality as well."

Today, "Taiwan's companies have two options," says Chiang. "They can move their manufacturing operations overseas and continue making labor-intensive

products, or they can introduce cutting-edge technology to their manufacturing processes, thereby increasing the quality and value added to their products."

Notes Liu of CETRA: "Companies still operating in this country have to be good. Uncompetitive companies have gone bankrupt or have moved out already."

Government is doing a great deal to prevent businesses from "taking the easy way out" and leaving the ROC, which could eventually hollow out the nation's manufacturing base, says Chiang. Government's efforts include the vast infrastructure-improvement plan, direct and indirect financial support of research and develop-

ment, and tax incentives for automation, training, pollution control, and energy conservation.

But as is generally true in free-market economies, Taiwan's leading companies have been out in front of government policy makers in anticipating future needs and moving quickly and decisively to meet them.

For years, ROC industry leaders have been individually and collectively laying the groundwork for Taiwan's Quality Revolution.

Among these business visionaries, simply making products for sale bearing the brand names of foreign firms is out; producing world-class goods that proudly bear Taiwan brand

An Unlikely Tennis Power Player

Odd though it may sound, many industry analysts regard a Taiwanese businessman, Kunnan Lo, among the most powerful men in tennis, a sport whose upper echelon of players is traditionally dominated by Europeans, Americans, and Australians.

Lo is the founder and chief executive officer of Taiwan-based Kunnan Enterprises Ltd., the parent company of racquet maker Pro Kennex, and his life is a microcosm of Taiwan's development as a world-class manufacturing nation.

Born in a major industrial city near the center of Taiwan, Lo's father manufactured plastic toy guns. Following the assassination of President John F. Kennedy in 1963, passage of strict laws made it virtually impossible to import such guns into the U.S.

In 1969, at the age of 24, Lo broke from the struggling family business to form his own badminton-racquet company. At the outset of his enterprise, it was typical of Lo to sleep in his factory alongside his 100 or so employees, which he housed there to facilitate long work hours.

In 1973, Lo exhibited his penchant for diversifying his business based on anticipated market changes in the market by branching out into the manufacture of

aluminum tennis racquets. The quality of his new products resulted in an agreement to manufacture racquets for sale under a major name brand in tennis, thereby forever solidifying Lo's role as a dynamic force in racquet manufacturing.

Later, Lo pioneered the use of graphite components in racquetball racquets, eventually applying his expertise to the manufacture of medium-sized tennis frames. His industry-leading technology spearheaded a move by players to medium-sized racquets in the late 1970s and early 1980s that revolutionized the sport of tennis.

Today, his empire includes three graphite factories, one aluminum factory, one badminton factory, and factories that specialize in golf clubs and tennis footwear.

Despite the absence of formal training or education, Lo has built Kunnan Enterprises into the world's largest manufacturer of racquet frames sold under its own Pro Kennex and many other leading brand names. Sold in more than 50 countries worldwide, Pro Kennex racquets are now among the three best-selling brands in the U.S.

But success has not satisfied Lo's thirst for innovation. Just recently, Pro Kennex unveiled the world's first asymmetrical



Pro Kennex's asymmetrical racquet offers unprecedented precision and stability.

racquet for highly skilled players. The racquet's unique physical characteristics offer unprecedented precision, maneuverability, and stability while damping vibration.

Made in Wall

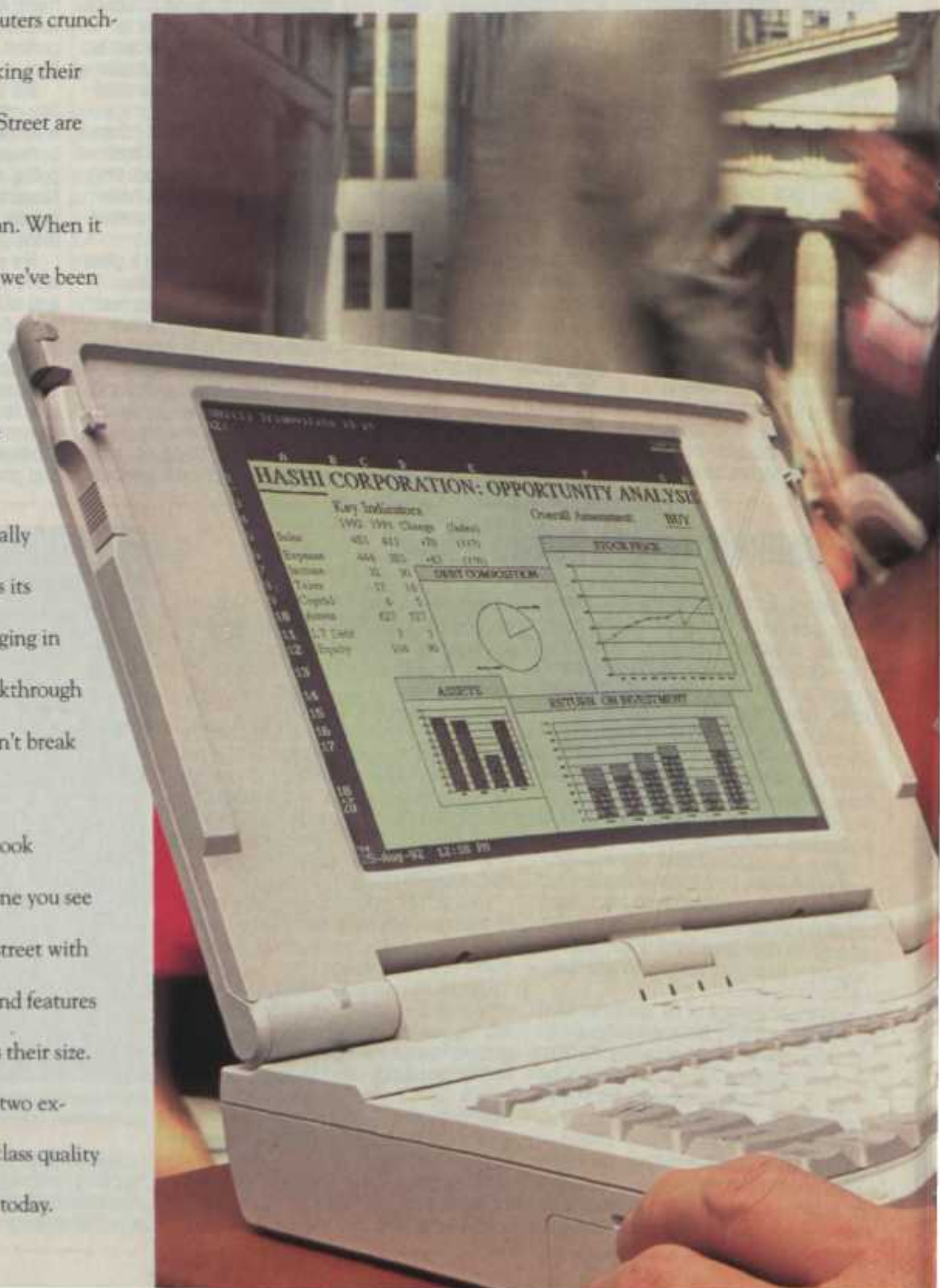
Many of the computers crunching numbers and making their reputations on Wall Street are made in Taiwan.

That's right. Taiwan. When it comes to computers, we've been upgrading our reputation for years.

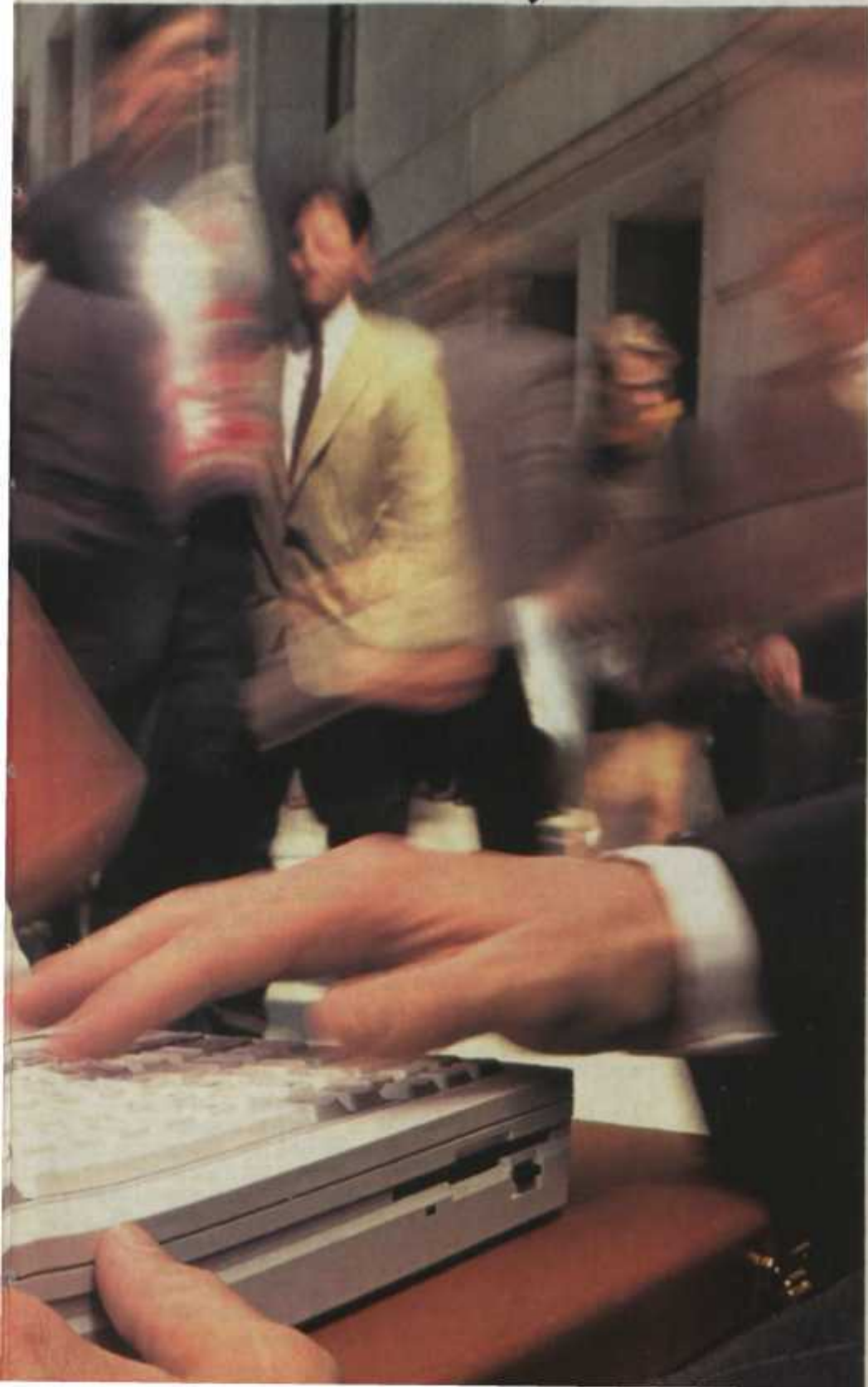
For starters, we make the only PC in the world that automatically upgrades to five times its power by simply plugging in a microchip. It's breakthrough technology that doesn't break your budget.

Many of our notebook computers, like the one you see here, let you hit the street with the real time power and features of desktops five times their size.

But these are only two examples of the world-class quality coming from Taiwan today.



Street, Taiwan.



We were the first to use aerospace materials in tennis racquets. We took carbon fiber graphite from rockets and put it into racquets to make them lighter, stronger and more flexible.

And recently one of our mountain bikes was named 1992 Bike of the Year by Mountain Biking magazine. "...It's an outstanding achievement in quality, value and performance."

But our biggest breakthrough is making this cutting-edge technology and world-class quality surprisingly affordable.

So whether you're looking for a notebook computer, a desktop computer or a file server, the word on the street is Taiwan.



IT'S VERY WELL
MADE IN TAIWAN



IT'S VERY WELL MADE IN TAIWAN

names and the label Made in Taiwan is in.

Companies that are in the forefront of this movement, says the ROC's Board of Foreign Trade, include Acer Inc., Giant Worldwide, Copam Electronics Corp., Twinhead International Corp., Kunnan Enterprises Ltd., Leadwell CNC Machines Mfg. Corp., Microtek International Inc., and Vidar-SMS Co. Ltd.

But Taiwan's Quality Revolution doesn't include only those relatively large firms with established brand names. All around Taiwan today, small manufacturers as well as large ones are tooling up to meet tomorrow's quality demands of consumers worldwide. Modernization and high technology have become buzzwords. Whether the industry is computers, recreation, fishing, farming, or fashion, Taiwan quality and Taiwan technology have risen to state-of-the-art status.

The problem has been making the world take notice of this dramatic and remarkable change.

"Taiwanese companies made their fortune selling products with American-sounding brand names. Now, they're trying to put to rest the ghost of the undeserved cheap, low-quality Made in Taiwan image. But it won't be easy," says David Lightle of Bright and Associates. The company is a consulting firm that is advising the ROC government and its business community on brand promotion and image matters, including the Image Enhancement Plan.

Taiwan is "trying to establish itself as the high-tech business center of East Asia with the added value of culture and recreation," Lightle explains.

Much of the difficulty in promoting Taiwan products centers on the size of their



PHOTO: JOSEPH RUPP-BLACKMAN



The world trade center in Taipei, above, is among the world's busiest. At left, lasers are just one of the technologies being advanced at Taiwan's Industrial Technology Research Institute.

manufacturers. "Japan and Korea developed big trading companies and giant business groups and used them to advance the collective image of the countries' products," notes Chiang.

In contrast, he says, Chinese culture stresses individualism, and this tradition has given rise to a business structure in Taiwan centered on firms that, while dynamic and innovative, are small or medium-sized by most of the world's standards.

Consequently, even the larger ROC companies listed previously are "not in a financial position to put up big ad campaigns to tell the world's consumers that they are making good products," says Liu of

CETRA. "And consumers need to learn this truth: It's not propaganda," he adds emphatically.

Some businesses in Taiwan are trying to overcome the marketing and promotion challenge presented by their small size by joining forces under the umbrella of the Brand International Promotion Association (BIPA). This organization was established in July 1989 by five firms, says Chairman Stan Shih, who also is chairman and chief executive officer of Acer Inc., Taiwan's largest company, with annual sales of about \$1 billion.

BIPA's roughly 70 current members share experience in promoting brand image, es-

tablishing a corporate identity, and protecting intellectual property, says Shih. Moreover, it works to internally and externally promote the Made in Taiwan image, he says. "If we can establish the image of Taiwan as 'the high-tech island of East Asia,' every existing and start-up company will enjoy the benefit," Shih says.

The ROC's quality image should get a tremendous boost Jan. 12-17, which has been designated "Celebration of Excellence" week in Taiwan. This event, which marks the formal launch of the government's Image Enhancement Plan, will showcase Taiwan-made products on the cutting edge of technology and design that provide quality, reliability, and value to customers the world over.

A highlight of the celebration, which will be attended by government officials, business leaders, and selected media representatives from the ROC's leading trading partners, will be the announcement of winners of the ROC's National Award of Excellence.

Thus far, about 1,600 products have been entered in the competition by Taiwan's leading companies. An international panel of judges will initially choose 150 to 200 semifinalists; from that group will come the winners and about 15 runners-up.

Products earning semifinalist status and above will be entitled to carry the ROC Symbol of Excellence and the words It's Very Well Made in Taiwan. (See the top of the page.)

However, acknowledges CETRA's Liu: "Changing an image is not a one-week or even a one-year project but a long-term commitment until you get where Japan is today: possessor of an image of quality so strong that you don't have to do any more to promote it."

TRANSPORTATION

Filling The Transit Gap

By Julie Candler



PHOTO © SANTA FE—BLACK STAR

Kids Kab transports children and teenagers in Birmingham, Mich., to school, appointments, and special events within an area of five to seven square miles.

When she found she couldn't be in three places at once to drive her 10-year-old twins and her 12-year-old to all their activities, Pam Henderson of Birmingham, Mich., started Kids Kab. "My children swim every day, but each at a different time and a different place, and there's only one of me. I was trying to operate an interior-design business from my house, but all I was doing was driving," says Henderson.

In the spring of 1991, Henderson distributed 200 fliers, asking parents to contact her if they would like to have their child transported to and from school or special activities. She received 600 responses in three days.

Now, 10 Kids Kab vans—five eight-passenger Ford Aerostars and five 12-passenger Ford Econolines—shuttle children and teenagers to private schools, lessons, doctor and dental appointments, and extracurricular activities within an area of five to seven square miles.

Whether their passengers are school-children, business travelers, or partygoers, transportation entrepreneurs such as Pam Henderson are profiting from the demand for their services while also making a dent in urban traffic by reducing the need for automobile use. Some of these small transportation firms are meeting obvious needs, such as transporting the children of working parents, while others are finding less-obvious market

niches, such as transporting the disabled to therapy sessions.

Seventy percent of Kids Kab's customers are working mothers. They pay an annual \$20 registration fee, which covers the cost of a photo identification card that—for security reasons—becomes each passenger's bus-admission ticket. The fee per door-to-door ride starts at \$6 one way and is based on zones.

A Business Alternative

Just as Pam Henderson spotted a transportation niche for serving suburban families, the operators of SuperShuttle International in Los Angeles saw a way to offer business travelers an alternative to taxicabs, shuttle vans, and limousines.

In 1989, the firm started ExecuCar. Uniformed chauffeurs drive full-sized Mercury Marquis sedans outfitted with cellular telephones, reading lamps, and tinted windows. The firm operates 33 sedans 24 hours a day in the Los Angeles area and adjacent Orange County.

The sedans provide personalized service at a rate the firm says is slightly higher than a taxi but lower than most limousine services. The average ExecuCar fare from Los Angeles International Airport to a home in Beverly Hills is about \$46, says Karen Kingston, vice president and chief operating officer of SuperShuttle International.

Following its success in Los Angeles,

Whether the destination is the airport, a school, a ball game, or a bar, there's an entrepreneur offering a ride.

ExecuCar was expanded to corporate-owned operations in Phoenix, where there are now 23 sedans serving clients, and in the Dallas and Fort Worth area, where there are eight cars.

SuperShuttle International also operates 24-hour-a-day airport van pool services in Los Angeles, San Francisco, Dallas, and Phoenix. Also, franchised units in San Diego and Miami offer airport van pools under the name SuperShuttle.

In San Francisco, SuperShuttle's ride from the airport to a hotel costs a flat \$10. Residential service from the airport to the door, or vice versa, is \$11 for the first person and \$8 for each additional passenger going to the same destination.

SuperShuttle's general manager in San Diego, Mike Diehl, says the company operates 40 vans there and charges \$4 for a ride from a downtown hotel to the city's Lindbergh Field.

Seeing another kind of need for their vans, the San Diego franchise advertises, "We are the designated driver." When a group attending special events or parties is referred by Mothers Against Drunk Driving (MADD) and rents one or more of SuperShuttle's seven-passenger Dodge Ram vans, the firm makes a donation to the local organization.

Although most independent van and shuttle enterprises are strictly for transportation, some are formed to help build other businesses. That was the purpose of Jim Goldman's "cab for yuppies," a 60-passenger party bus.

Goldman, president of National Themes, Ltd., started his Bar Bus service in 1991 to give customers free rides to his establishments and other nighttime attractions. The route of the Chicago bus service includes concerts, sports events, the beach in summer, and the Goldman-owned Brother Jimmy's BBQ restaurant and Bamboo Bernie's bar. The Bar Bus is co-sponsored by the Miller beer company.

"Take Me Out . . ."

In Colorado this spring, patrons of three establishments in Boulder will be able to ride a bus to Denver to see the Colorado Rockies, one of the new major-league teams on the schedule for the coming season. "The whole idea is to have fun," says Mark Minion, co-owner of the West End Tavern. "But it's a goodwill project and a business promotion. We'll have the



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TRANSPORTATION



PHOTO: SCHIRI DOWDA

logos of the three sponsoring businesses on the side of the bus."

The tavern joined with the University Bike Shop and Pasta Jay's restaurant to share costs of operating the classic 1951, 40-passenger bus.

For Downtowners

In Detroit, the tuxedo-clad drivers of Royal Transportation Co. are kept busy shuttling diners, hockey fans, and bar patrons around the downtown area. Joseph N. Hartmann, one of three partners who began the business about a year ago, says many restaurants provide Royal's services to their patrons free of charge.

"They'll set up a package deal with dinner and a theater ticket or hockey game," says Hartmann. After taking the patrons to the show or the game, he says, "we take them to bars and restaurants."

Royal's five 25-passenger Champion minibuses and two 14-passenger Dodge Ram vans also operate on a charter basis. He says his business is growing and should show a profit by early 1993.

A transit gap of a different sort came to light for Diane Fields of Detroit after her mother had a stroke "and required transportation three times a week for therapy," she says. She and two brothers took time off from jobs to give their mother rides.

Four years ago, Fields quit her job in a federal court in Detroit and started Uplift Transportation, which transports the disabled to rehabilitation facilities in the Detroit area. Her three part-time drivers make five to 12 trips a day with two Dodge Ram vans equipped to carry wheelchair occupants.

Fields was making a small profit until Michigan recently cut back payments for transportation of the handicapped—most of which is covered by Medicaid—to \$20

per round trip plus 21 cents a mile.

Suburban Routes

Another Detroit resident, Naomi Clark, discovered a need to transport workers from the city to their jobs in the surrounding suburbs. In 1989, she formed Reserve A Ride to help meet that need. She bought four 14-passenger Dodge Ram vans. Two transport house workers door-to-door from Detroit to jobs in the suburbs for \$10, and two provide round-trip transportation between a pickup point in Detroit, such as a shopping mall, and a single suburban job destination for \$5. She hopes to expand volume and revenues by adding vans.

Starting With A Base

Don Rullo was running a car-rental company at Lackland Air Force Base, in San Antonio, when he spotted an opportunity: He launched a shared-ride van service, at 50 cents a ride, for base personnel, who had to walk from place to place on the sprawling base if they didn't have official transportation. The van service "was successful from Day One," he says, but he quickly saturated a market limited to a fixed area and client base, so he began looking for broader opportunities.

Noting a lack of incentives for private efforts in San Antonio's ground transportation generally, he started SuperVan, Inc., in 1987. He began with five vans and now has 100; each driver, he says, is well-groomed, courteous, and uniformed.

Rullo concentrated at the outset on service between downtown San Antonio and its airport, but he continued to expand into other areas. His vehicles



PHOTO: JAMES R. FULTON JR.

SuperShuttle in San Diego (top) is the designated driver for these football fans at Jack Murphy Stadium. ExecuCar driver Lynn Brown (left) gives Dallas/Fort Worth clients personal service.

transport baggage for airlines, fill transportation needs of conventions, provide service to theme parks, and supply charter vehicles to groups. SuperVan vehicles are routed by a customized computer system to maximize efficiency.

While his company was growing, however, he had "an ongoing struggle" with various government agencies involved in transportation. That struggle earned Rullo national recognition when he was chosen in 1992 as one of the four national designees of the Blue Chip Enterprise Initiative, which spotlights entrepreneurs whose ability to overcome adversity can serve as a model for other small businesses. The initiative is sponsored by Connecticut Mutual Life Insurance Co., the U.S. Chamber of Commerce, and *Nation's Business*.

Transportation enterprises not only provide needed services but generally also help to reduce traffic problems by carrying more than one or two passengers. Jackie Christiansen, executive director of the Kearny Mesa Transportation Management Association of San Diego, observes that what's possible for her city is possible anywhere: "If everyone would leave their cars at home and ride with someone else just one day a week, we would reduce traffic congestion by 20 percent."

FINANCE

Creative Ways To Raise Capital

By Joan C. Szabo

Brett Howell, president and chief executive officer of Vertical Computer Systems, a computer-programming and management-services company in Fort Lauderdale, Fla., figured he needed more than \$1 million in capital to keep his 8-year-old company on its skyrocketing growth path.

Vertical Computer produces a management system for the retail pawn-brokerage industry. Howell says it is the only available program for the industry that can be installed initially on a single-user system and yet can be expanded to more than 300 terminals. In addition to hardware and software, the company also offers training and technical support.

Vertical's growth parallels that of the pawn industry itself. In the past five years, industry research indicates, the number of pawnshops in the U.S. has grown by 50 percent, to more than 12,300. Vertical Computer, which Howell started in his living room, has seen its annual gross revenues rise from \$300,000 in 1984 to \$1.8 million in 1991, and he expects revenue to increase to \$8 million by 1995.

The company's rapid growth has "absolutely surprised me," Howell says, and Vertical lacked the capital base needed to expand effectively to keep up with the demand. Although banks have provided the firm with financing in the past, traditional lenders have not been willing to lend the big sums the company needs.

Vertical's management system, known as CompuPawn, assists a pawn shop with all facets of its business, such as automated police reports, customer profiles, portable scanning, and bar-coding. The software is designed to reduce a shop's administrative costs and improve its profits. Howell also has developed a similar management system for jewelry and firearms retailers.

With the help of an investment banker, a creative way was devised to take his company public, which Howell says will enable him to raise the money his business needs. The investment banking firm arranged a \$2 million equity placement for Vertical with several institutional investors. The first \$350,000 of the placement was made at the time of the transaction, with the remainder to be made over the next 18 months. After the transaction is completed, the investors will own 40 percent of Vertical's stock.

Equity financing has no fixed costs, but

it requires the owner to relinquish a portion of ownership in the business. Equity financing also eliminates the possibility of losing an entire business because of the inability to repay debt.

Howell says his company is typical of many small, growing firms that need financing in today's tight-credit environment. Small businesses ready to expand their companies maintain that banks have

Though credit is tight for many small firms, entrepreneurs are using innovative ways to obtain funds.

company. This in turn has made it easier for Vertical to raise capital, because investors are interested in purchasing the firm's stock.

Such a merger offers several advantages over traditional initial public offerings (IPOs), says Mike Segal, Bentley's managing director. They include allowing the owner to retain control of the company and facilitating the firm's ability to



PHOTO: GREN TOLSON

Vertical Computer Systems' president, Brett Howell, left, with Nelida and Juan Carlos Condinanzo of J.C. Cash Jewelers, in Hialeah, Fla.

largely been uninterested in granting them the loans they need.

Although obtaining financing remains difficult, there are a number of creative methods and a variety of sources that entrepreneurs can use to find the funds they need, credit experts say.

While Howell's solution was to go public, other small companies have found other financing techniques. A St. Louis firm, for example, has turned to a brokerage firm for some of its cash needs, and a Georgia company is financing the purchase of ready-mixed-cement trucks through a commercial finance company.

Here are examples of capital-raising methods adopted by small firms:

Going Public

To help raise capital, Howell turned to the Newport Beach, Calif., investment-banking firm of Bentley Richards & Associates. It first arranged a merger of Vertical Computer with an existing inactive public company. The merger allowed Vertical to become a publicly traded

raise additional capital in the future. In addition, this type of merger is less time-consuming and expensive than a traditional IPO, which can require up-front fees and retainers totaling as much as \$1 million.

Howell, who maintains controlling interest in the firm, says the \$2 million capital infusion is expected to help Vertical meet its growth plans. It will allow the firm to increase its sales force, make some acquisitions, and increase new-product development, all of which are designed to produce more sales.

Bentley focuses on undercapitalized growth companies that need capital. The investment-banking firm is helping to provide equity capital of \$500,000 or more to growing companies. The sources of this capital include pension funds, insurance-company funds, college-endowment money, European financial sources, and private investment partnerships.

The Bentley investment-banking firm also sees a special need among small-business owners who want to retain

FINANCE

control in their companies and can't really afford to seek equity financing because of the usual up-front charges.

The company typically charges no front-end fees, except when acting exclusively as an adviser. Bentley's compensation normally is in the form of an equity interest in the company for which it helps obtain financing. "Our firm actually funds the expense of the transaction—we will pay for the legal expenses and the various costs associated with any merger, because these can run as high as several hundred thousand dollars," he says.

There are a number of investment-banking firms throughout the country. To locate one in your area, Segal suggests, try networking with business associates such as local bankers, accountants, and venture capitalists who may be able to offer a recommendation. He cautions that

was a question of what the cost of that capital was, and what would be the best repayment terms."

Merrill Lynch was creative in its approach to coming up with financing for the firm, says Stephens, by providing it with a convenient line of credit for working capital and equipment financing. "Banks can't and shouldn't be your only source of capital," says Stephens.

The company still maintains a relationship with its local bank. "We are using Boatmen's National Bank, and they are providing half of our financing at this point," says Stephens.

Merrill Lynch maintains strict credit requirements. Generally, it requires firms to show that they have been in business for at least five years and have revenue of \$2 million to \$30 million. Also, the net worth of the business must exceed the

finance the purchase of a number of ready-mixed-cement trucks at \$90,000 apiece, Howard turned to a commercial finance company.

Finance companies are secured lenders. They provide funds that are backed by the borrower's assets. This collateral includes accounts receivable, inventories, and plant and equipment. The CIT Group, a company of Tokyo-based Dai-ichi Kangyo Bank Limited and Chemical Banking Corp., is providing the financing for Howard. Jack Maddox, director of marketing for CIT, agrees with Howard's assessment on the reluctance of many bankers to finance equipment. He says many banks "are steering away from doing long-term equipment financing."

Coastal's Howard notes that the rates offered by CIT are competitive with banks' rates. In addition, "CIT's terms, requirements, and knowledge of what my business is all about are more refined" than are those of most banks, he says.

To obtain financing for equipment purchases, Maddox says, it is important to be able to provide the commercial lender with three consecutive year-end financial statements and interim reports.

Commercial lenders also require firms seeking capital for equipment to provide their balance sheets, profit-and-loss statements, the statements of changes in financial condition, and analyses of operations. The lender also will want to know if the statements have been prepared and audited by a certified public accountant.

One element the lender will consider is the purpose of the loan. For example, if a company would like to upgrade its equipment, it is important to determine how much upgrading is required and what value it would bring to the company.

If additional equipment is being considered, it is important to determine how much of the company's business depends on the desired equipment and whether projected growth justifies adding the equipment.

Finance companies also have a number of other requirements, such as references and a good credit history with suppliers. Maddox says that if the financial statements alone do not support a decision to grant credit, the company seeking financing might also consider pledging additional collateral, providing personal guarantees from the owners or management, or a larger down payment.

CIT generally provides 90 percent of the financing on equipment purchases, but the finance company's commitment can run from 75 to 100 percent of the purchase. The amount of the purchase not financed by CIT is generally covered by a trade-in on used equipment, a cash down payment, or a company's collateral. ■



PHOTO: JIM EMMONS/BLACK STAR

Merrill Lynch was creative in providing financing for St. Louis-based Color Associates, says CFO Gary A. Stephens.

some investment bankers act only as advisers and charge up-front fees for their services.

Tapping A Brokerage Firm

Another alternative source of capital for small companies is the capital assistance that a financial-services firm can provide. Merrill Lynch, headquartered in New York, is one investment company that offers this type of lending to growing companies. It began lending to companies in 1986 and has since provided about 100,000 companies with capital. Financial-services firms offer many services, such as investment and insurance products.

A firm that obtained financial assistance from Merrill Lynch is Color Associates, which specializes in separating colors in photographs for printing purposes. Gary A. Stephens, chief financial officer of the St. Louis company, says Color Associates, which has annual sales of about \$25 million, was eager to improve its financing arrangement with a local bank. "We did have access to capital," he says, "but it

amount of credit the firm is seeking.

Richard A. Hanson, director of Merrill Lynch's business financial-services group, says he is not aware of any other financial-services firm that is involved in small-business financing. The financing side of Merrill Lynch's business has grown from \$200 million in 1986 to nearly \$800 million in 1992. Hanson says that Merrill Lynch is offering financing to growing firms as one of many services to clients. "We perceive our best customers to be people who own their own businesses. In fact, about 50 percent of our key accounts are privately owned businesses. Most of them are small firms."

Financing Equipment Purchases

Small-business owners often have a hard time obtaining the capital they need to help finance equipment purchases. David Howard, president of Coastal Concrete of Georgia, Inc., in Augusta, finds that banks are reluctant to finance equipment, particularly if it is construction-related. So when Coastal Concrete needed capital to

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Small-Business Computing

A board with a voice; moving data to tax programs; a way to cure hard-disk hiccups.

By Ripley Hotch

COMMUNICATIONS

New In Sound

Hardware and software makers have been working hard to give computers a voice other than the creepy talk we associate with a talking computer. There are plenty of uses for sound in the personal computer.

One is simply to annotate a spreadsheet or text file as if you were discussing it with someone. Artisoft came out in early 1992 with a telephonelike device that attaches to the computer and allows you to do just that.

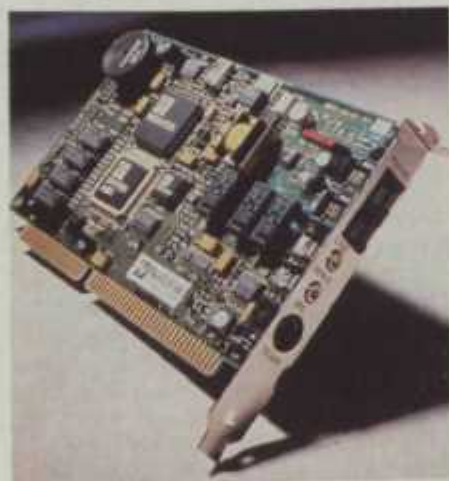
It is also nice to have the computer accept and send faxes, and Intel Corp., the biggest chip maker in the country, used its skill to create a combination of modem and fax board in early 1992 at a low price.

Now National Semiconductor Corp., another big chip maker, is bringing out a board that combines modem, fax, voice mail boxes, and voice annotations, all for less than \$300.

The board is called TyIN 2000, and it uses the Windows interface. You can add audio notes to documents, and the notes can be sent over a network. It also has voice mail with multiple mailboxes. Usually voice messages have been impractical because they take up too much space on a hard disk, but this board uses compression technology to ease that requirement.

You can also call in for messages from any touch-tone phone.

All-in-one boards (or even fax/modem boards) have had problems handling the different requirements of all these services coming on one line. But the TyIN card senses automatically whether an incoming call is voice, data, or fax. That



makes the board a real boon to home-office workers who don't want to buy (and juggle) three separate phone lines. You can also attach a scanner to read documents directly into the system to be sent as faxes, if you wish. And you can record directly from a microphone.

The recommended retail price of the

board and software is \$279. It should be widely available at computer retail outlets.

By The Numbers

Many companies are working on sound in the computer, from IBM to Microsoft, so you can bet there will be breakthroughs in speech-recognition technology. The problem for PC users is that the hardware was never designed for sound. It has to be added, and the standards for how the board communicated with the computer system have varied considerably.

But if you have a simple need for decent sound, do you want to go to all the trouble of upgrading to a more powerful computer, adding boards, software, configuration, and all that? A small company called Temair Software Corp., in Providence, R.I., identified the need for using speech to check spreadsheets. Its solution was a product called Spreadsheet Echo, an add-in software utility that works with Lotus 1-2-3. It reads the spreadsheet numbers back to the user while he or she checks the original numbers. It's a simple way to check, without having someone else read the numbers, or printing out the spreadsheet to compare column for column. You can listen either through the computer's speakers or through headphones.

Cost: \$99.95 plus \$4 shipping; 1-800-933-8980.

FINANCIAL

It's That Time Of Year, Again (Almost)

Tax programs for the microcomputer have come a long way since they were first introduced. They are more powerful, and, though they still don't do the most complex returns, they are very good for the average return.

The basic approaches are well-established, so tax programs are adding some useful features that will encourage more people to try them.

Earlier this year, the major tax-software publishers got together with some of the major financial-software publishers to agree on an exchange format between programs like Quicken and Managing Your Money, so that financial information collected over the course of the year

could automatically move to the tax program. The new tax-exchange format should save a lot of time for users who are faithful about keeping up their financial records.

ChipSoft, Inc., publishes the best-selling TurboTax, which has the lion's share of the DOS market. It has upgraded the program this year with what it calls EasyStep. This feature acts as a kind of controller of the steps a user takes, from importing data from Quicken, to checking the return, and printing the form. It basically stands between the user and the IRS forms. TurboTax lists for \$79.95 for both the Windows and DOS versions. ChipSoft also bought MacInTax, the

leading Macintosh program, and has added EasyStep to it as well (at the same list price).

Andrew Tobias' TaxCut from Meca Software prefers the interview method and has refined it this year. Meca is pushing hard into the Windows market with TaxCut, although the DOS version has the same interview. With the Windows product, you see the tax forms on screen exactly as they are. The interview puts questions to the user, just as a CPA would do, and then puts the user's answers on the correct lines in the forms. In general, the user is more insulated from the process than in TurboTax's method.

Both versions sell for \$50, and both publishers guarantee the results of their programs (as long as you're honest about your answers).

SCANNERS

Color At A Fair Price

Although PCs have dropped drastically in price over the past year, the prices of peripheral devices have been slower to fall until recently.

But they are powered by the same kinds of chips, so it was only natural that competition would begin to force prices down and performance up.

Microtek Lab, Inc., in Torrance, Calif., is one of the leading makers of scanners, and for some time the company has offered color as well as black-and-white scanners.

The company's latest scanner, the **ScanMaker II**, offers high-quality color scanning and a lot of software, at an expected street price below \$1,000.

There are models for both the PC and



The ScanMaker II from Microtek Lab; color scanning and lots of software.

the Mac. For more information, call the company at 1-800-654-4160.

TROUBLE SHOOTING

Curing The Hard-Disk Willies

Hard disks die. This terrifying fact of computer life has grown larger now that new operating systems, networks, and space-hungry programs have made hard disks a necessity for almost every machine. Couple that with almost every user's neglect of regular backups, and you have a recipe for disaster.

It doesn't happen often. And before it does, your disk will give some signals. Now comes a software utility of amazing perception that will give you plenty of warning—besides repairing a lot of little problems along the way.

Disk Technician Gold from Disk Technician Corp., in San Diego, aims to replace such standard disk-maintenance software as the Norton Disk Doctor, PC Tools, and Gibson's SpinRite. This is a large order, but DTG has a major ally: Seagate Technology, Inc., the world's largest manufacturer of disk drives.

What DTG does is repair hard-disk problems—those little hiccups that eat data—and recover the endangered data. On some critical errors where there is a real danger that you could lose your work, the program saves the data temporarily and then flashes a message—along with a sound like a European ambulance—notifying you to save your work, exit, and reboot the computer.

It will also notify you, by a message on the screen, that there is a pattern of errors indicating that your hard drive is going to fail. It lets you know in time to do a complete backup and be ready to replace your drive.

It does a lot of other nice little operations that help your hard disk to run faster and smoother. Best of all, it runs in background; you don't have to remember to run the program for it to do its magic.

Seagate recommends you use DTG to

"ensure error-free data storage throughout the service life of your hard disk drive."

DTG is easy to install, takes up very little room, and will run with DOS or Windows on a desktop or laptop PC. At \$149.95, you can buy a lot of peace of mind. Available through dealers or direct from the factory at 1-800-847-5000.

WINDOWS UPGRADE

Old Friend, New Face

As more of the PC world moves to Windows 3.1, so do more of the familiar DOS programs many users came to depend on. One of those that has just moved over is **Info Select**, a free-form note-taker that lets you stack stuff up much the way you would on a messy desk. Retrieving information is much easier, however.

The Windows version of Info Select operates much like the original, with the advantage of the attractive appearance dictated by Windows. The search functions have been upgraded to allow all kinds of approximate matches. If you have

a stack of 400 pieces of information, it's handy to be able to find all references that approximate the name "Macdonald," for example.

These personal information managers (PIMs) are very personal, so this notion may not work for you. But if you haven't found a PIM for Windows that you find relatively simple to use, this may be it.

Those who have grown to like the DOS version of Info Select but find it clumsy in Windows can now have their information manager handy. It still requires more clicking and pointing than DOS, but most of the keystrokes the program used have been carried over, and the database you have will move as well. The upgrade is \$69.95; 1-800-342-5930.

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An Upbeat Forecast For Franchising

By Meg Whittemore

By quickly meeting subtle but rapid shifts in consumer needs, franchising will remain a strong segment of the economy.

Ask a group of franchisors how they think the economy will shape up in 1993, and they typically will reply, "Who knows?" But ask them how franchising will fare in a slowly growing economy, and their answers generally will be decisively upbeat.

"I believe the strongest growth in 1993 will be through small businesses, and franchising will continue to be a tremendous source of expertise for new small-business owners," says Paul Erwin, president of Primrose School Franchising Co., in Marietta, Ga.

Bill Hadley, founder of Environmental Biotech, a Sarasota, Fla., franchise that uses grease-eating bacteria—allowed by the U.S. Food and Drug Administration—to service companies that have grease-disposal problems, says, "Our business is not sensitive to the economy, only to the ecology—which means we are growing by leaps and bounds."

Alan Schonberg, president and founder of Management Recruiters International, in Cleveland, says there is a bit of irony in the fact that as the economy slows, the interest in franchising generally increases. "You would expect people to shy away from investing in a small business during a weak economy," he says, "but often, franchising presents the only alternative to a displaced white-collar worker."

In recent years, franchising has reacted favorably to many of the trends that have affected—sometimes adversely—other business segments. Franchising's ability to meet subtle but rapid shifts in consumer demands, demographic changes, and technological breakthroughs indicates that it is likely to remain a strong segment of business regardless of the general state of the economy.

In 1992, for example, when the economy grew at a projected rate of only 1.8 percent, 18,500 new franchises opened for business, creating more than 100,000 jobs, according to the International Franchise

Association (IFA), a trade association for franchisors, in Washington, D.C. Consumers spent one-third of every retail dollar in 1992 at a franchise, says the IFA.

However, in interviews with *Nation's Business*, franchisors and franchisees alike said they expect to feel increased pressures in 1993 to meet their financial projections. They say they think consumers will be more reluctant than ever to spend money, and the only businesses

legislatures are also gearing up for proposals calling for stricter franchise regulations.

As a result, 1993 is shaping up to be a very challenging year for both franchisors and franchisees. The IFA is calling for its members to embrace a self-regulation standard, and a new franchisee council has been created to improve communication between franchisors and franchisees.

How are franchisors and franchisees coping with the challenges ahead? Many are going back to basics—customer service, improved communications among themselves, taking advantage of technology, and focusing on market niches created by demographic trends.

Franchising, with its chameleonlike ability to adapt to its surroundings, finds itself facing another year of adjustment to the economic, demographic, technological, and consumer trends that shape its environment. Here are selected franchisors and franchisees who have been meeting today's challenges and identifying the strengths they believe will help them meet the challenges of the coming year.



PHOTO BY A. SCHWARTZ

Be helpful and pleasant to customers, and they'll come back, says Joy Boston, owner of a Caffe Classico franchise near the White House.

Customer Service

It is 6:15 a.m. in downtown Washington, and a typical workday has begun for Joy Boston, who owns a Caffe

Classico franchise three blocks from the White House. During the next 13 hours she will do virtually every job in the store—open the doors at 7, wait on customers, grind coffee beans, clean dishes, order food items, schedule her 13 part-time employees, deal with her landlord, order insurance, balance the books, greet her lunch customers by their first names, and lock up at the end of the day.

"I have a high energy level for work and an even higher level of tolerance for stress," Boston says. "You need that if you own a business." She adds that it is her customer service—coupled with the product—that keeps bringing people back to her Caffe. "I really work at the

that will thrive will be those that offer products and services that are convenient, affordable, perceived as necessary, and delivered with attentive customer service. In meeting the challenges presented by customers, franchising typically has offered innovative businesses that are niche-driven and customer-oriented. Perhaps an even bigger challenge facing the franchising community this year, however, will be coping with the increased scrutiny by federal and state lawmakers. Rep. John J. LaFalce, D-N.Y., introduced two franchising bills in Congress in 1992 and is expected to reintroduce those bills in the new Congress, which convenes Jan. 5. (See the box on Page 56.) Some state

Classico franchise three blocks from the White House. During the next 13 hours she will do virtually every job in the store—open the doors at 7, wait on customers, grind coffee beans, clean dishes, order food items, schedule her 13 part-time employees, deal with her landlord, order insurance, balance the books, greet her lunch customers by their first names, and lock up at the end of the day.

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service end of the business," she says, "and I keep training my employees to do the same. It's a simple concept—if you're not helpful and pleasant to people, they won't come back."

Caffe Classico is owned by the Baskin-Robbins franchise company and is based in Brea, Calif. It is a European-style cafe offering gourmet coffees, sandwiches, salads, espresso, and gelato—Italian ice cream. Boston's 1,200-square-foot store is her second Caffe Classico franchise in seven years. "I sold the first location and all the equipment and converted the franchise to this new location," she says, describing her move to a larger store in a better location. It was the chance to offer lunch items that prompted her to make the move, she says.

It cost Boston \$200,000 to open her new Caffe Classico—which is the standard start-up cost. "This is a big financial commitment," she says, "and I am determined to see this business succeed."

Boston, a former flight attendant with the now-defunct Eastern Airlines, says she found Caffe Classico during her

"The economy is tight, and people are going back to basics."

—Jo Kirchner,
Primrose School
Franchising Co.

frequent trips to San Francisco. "After I left Eastern, I knew I wanted to do something on my own in the food-service business, and the franchise idea just presented itself," she says.

After carefully weighing her options and determining her capabilities, she decided to buy a franchise. "Franchising is helpful because it gives you somebody [the fran-

chisor] to get you going, nurture you, and shove you along a little," she says, but "the franchisor won't make you successful. That depends on what you bring to the business, how hard you are prepared to work, and how committed you are to finding the right franchise for you."

Finding the right franchise took Navin Bhatia a year's worth of research, on-site visits, and a lot of soul-searching. He finally decided on Valvoline Instant Oil Change, based in Lexington, Ky. "I started out with certain criteria in mind," he says, "including the franchisor's experience, longevity, and position in the industry. I wanted to be involved with an industry leader, not a follower."

Next, he looked at the company's re-

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search and development capabilities. "This was important to me because it meant getting a good site," says Bhatia. "If the franchisor cannot help you identify the strongest market segment for you, then you could end up in a poor location."

Commitment to customer service was another area of importance to Bhatia. "I am not in the business of selling Valvoline," he says. "I sell service and convenience to my customers. Valvoline understands that concept."

Bhatia, who owns three Valvoline franchises in the San Antonio area, thinks buying a franchise gives you an edge over going it alone. "The franchisor brings the operating procedures, policies, and the experience base," he says, "and you marry that with your own skills. Hopefully, the result will bring a much stronger combination to the table which will ensure—but not guarantee—success."

Technology

Technological advances have given many franchises an advantage in the marketplace and have also created markets well-suited to franchising.

Biotechnology is the cornerstone of Environmental Biotech, the Sarasota-based franchise that specializes in grease-eating bacteria. Sound far-fetched? Five hundred clients nationwide—including



PHOTO: GREG DARMANN

"I sell service and convenience," says Valvoline franchisee Navin Bhatia.

the Kennedy Space Center—don't think so. For them, Environmental Biotech offers an ecologically sound method of removing grease from grease traps in their restaurants, and from pipes in their waste-water treatment plants, dairies, bakeries, and factories.

The process is called bioremediation, which is the natural process by which bacteria break down animal and vegetable matter. "We bring 'bacteria power' out of the lab and into the marketplace where it can do all of us some good," says Bill Hadley, president of Environmental Biotech.

The live bacteria—actually a mixture of 13 strains of bacteria—are grown and freeze-dried at the laboratory in the

corporate headquarters before being shipped to the company's 40 franchised offices around the U.S. Once a shipment reaches the franchisees, the bacteria are reconstituted, incubated, and then injected into the drain lines and grease traps at the customers' business locations. As the bacteria attack the grease, the byproducts are carbon dioxide and water. The bacteria work until they die—in about 14 days—and are flushed through the pipes with the daily use of water and a little ordinary bleach.

Hadley, whose background is in chemistry and marketing, believes his niche will be profitable. He started 1992 with 12 franchises and—largely in the fourth quarter—added 32; systemwide sales totaled \$1.3 million. Thanks to the expansion of franchises and some major new contracts, he expects 1993 sales to top \$5 million.

"There's a lot of pressure on the food-service businesses to properly dispose of cooking grease," he says. "Instead of paying a plumber to routinely snake out their line, they can pay us to keep it free and do the environment a favor in the process."

Hadley expects soon to offer bacteria treatments for gelatin byproducts, such as those that arise in photo-processing

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PHOTO: SHANE STERNBERG—BLACK STAR

A million-dollar TV studio at Management Recruiters International, in Cleveland, helps in training franchisees, says Alan Schonberg, founder and president.

labs, and for sugar and starch build-ups of the type that occur in commercial bakeries. "It is cutting-edge technology," he says, "and we are growing rapidly."

Using the technology of video production to provide systemwide communications for his franchise is the route Alan Schonberg decided to take several years ago at Management Recruiters Interna-

tional (MRI), a Cleveland-based franchise company specializing in employment recruiting services. "We invested \$1 million in a full television studio at our corporate office primarily to train our franchisees and maintain close communications with them," says Schonberg.

MRI's training program includes 38 half-hour videotapes—all of them pro-

duced at MRI's studio—on a wide range of subjects, including hiring procedures, how to use computer equipment, sales motivation, day-to-day office management, and client relations. "It's intense, but franchisees have the information they need at the touch of a button," he says.

MRI's television studio is also used to produce six annual video magazines that contain some training tips and news on franchisees' families, offices, accomplishments, and upcoming events.

Franchisees increasingly include a computer, modem, and facsimile in the start-up costs of a franchise. Computers are used for a range of support services, including accounting, inventory tracking, and sales information.

People Development Technologies, based in Jacksonville, Fla., evaluates prospective franchisees for various companies, using a software package from London-based Saville & Holdsworth, a research organization that specializes in psychological assessment information. "The software enables you to build a computer simulation of any job in your business," says Les Krieger, president of People Development Technologies. "From that simulation, the computer will tell you if a person is a fit for the job."

The firm is a division of Paul W. Davis Systems, Inc., a Jacksonville company that restores damaged property. People

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Development Technologies' prospect-evaluating service for other franchises is an outgrowth of efforts to do the same for prospective franchisees of Paul W. Davis Systems.

Krieger, an industrial psychologist, arrived at Paul W. Davis Systems after the founder asked him to find a better way to qualify prospective franchisees. Krieger located the software and ran tests on Davis Systems franchisees.

The computer processes information provided by the applicant on Saville & Holdsworth's Occupational Personality Questionnaire, which covers a wide range of work-related behaviors. The answers are matched with the requirements listed in the job description in the computer.

"This will have a far-reaching impact on franchising," says Krieger, "because we can go into a franchise company and really qualify their leads for them." It costs about \$2,000 for a job simulation and \$12 to \$180 per candidate to run the questionnaire match-up, depending on how detailed a report is requested.

Demographics

In his book *The Most Critical Transition Points in the 20th Century*, author Nathan Glaser writes that the most important change in 20th-century society has been the entry of women into the work force.

Jo Kirchner, vice president of marketing for Primrose School Franchising Co., a Marietta, Ga., company whose franchisees provide preschool educational day care, agrees: "Our research indicates that 60 percent of the women in the work force today have children under 6 years of age, and by the year 2000, it will be 75 percent."

The difficulty of finding quality day care for preschool children is the driving force behind the success of Primrose, founded in 1982 by Marcy and Paul Erwin. Systemwide sales in 1992 exceeded \$7 million. Projected revenues for 1993 are \$14 million. Kirchner says parents are looking not only for good day care for their children but also for quality preschool education. "Until recently, there hasn't been an alternative for parents," says Kirchner. Primrose has 27 franchises, most in the Southeastern states.

Primrose offers two years of kindergarten, which gives children a sampling of mathematics concepts, Spanish, computers, music, art, and reading readiness. "We're not trying to create geniuses," says Paul Erwin, the firm's president. "We are just trying to increase children's readiness to enter public schools."

Primrose franchisees are typically business executives with no training in education. Qualified early childhood

teachers are then hired by the franchisee. The cost to open a Primrose school is \$800,000, which includes construction of a building. Student fees are \$80 to \$110 a week for each child, depending on the child's age.

"The economy is tight, and people are going back to basics," says Kirchner, "and



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one of the key things that has not yet been dealt with is the education of our young children. That's where we come in."

The rising average age of the U.S. population and skyrocketing health-care costs have spawned numerous health-related franchised businesses, including Agency Professionals Inc., which specializes in temporary employment for health-care workers.

Based in Grand Rapids, Mich., Agency Professionals capitalizes on the increasing need for professional registered nurses, licensed practical nurses, and nurses' aides—especially for jobs working with the elderly. In 1992, the company's systemwide gross sales totaled \$1.2 million.

Start-up costs for a franchise range from \$48,500 to \$135,500, depending on the territory.

Founder Michele Sobczak, a registered nurse, views her franchise as a bridge between nurses on the one hand and hospitals and nursing homes on the other. "While nurses are looking for a better career opportunity, hospitals and nursing homes are looking for a way to engage highly trained, dependable nurses without incurring the cost of added staff."

By using her company, Sobczak explains, hospitals don't have to cover the



The Inn on Winter's Hill, in Kingfield, Maine, is a franchise in Choice Hotels' chain of upscale Clarion Carriage House Inns.

costs of benefits for the additional nurses; their benefits are provided by the temp agency.

Hot Markets

What markets will thrive in 1993? "Those that offer a narrow niche of service or product, deliver it conveniently, and make it affordable," says Bob Kushell, a franchise consultant based in Glenview, N.Y.

Tom Ward, vice president of Management 2000, a Houston-based consulting firm, says, "Companies that provide products and services which help individuals maintain optimum health are really hot right now."

Consumer concern about nutrition, for

example, is a key ingredient in the success of Pudgie's Famous Chicken, based in Woodbury, N.Y. George Sanders (no relation to Kentucky Fried Chicken's colonel) founded Pudgie's because he disliked eating the skin of fried chicken.

"Ninety percent of the fatty part of the chicken is in its skin," Sanders says, "and I always hated biting into a piece of fried chicken for that reason." So he developed a skinless version of fried chicken, which is the cornerstone product of the Pudgie's franchise.

Nation's Restaurant News, which tracks trends in the restaurant industry, reports that regional chicken chains like Pudgie's as well as Boston Chicken—which offers roasted chicken with all the trimmings—are making a mark in the market.

The National Restaurant Association reports that in 1991, 68 percent of all orders at chicken restaurants were consumed away from the restaurant, which is good news for a franchise like Pudgie's, whose business is strongly supported by takeout orders.

Another of the hot markets—those served by firms that have identified a narrow niche of consumer preference and have incorporated that niche into their overall marketing direction—has devel-

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Finding Franchise Opportunities

You can conduct your own research on franchise opportunities by starting with books and personal interviews.

Many of the numerous books on franchising are available through the International Franchise Association (IFA). The IFA's \$15 *Franchise Opportunities Guide*, for example, offers advice on shopping for a franchise and lists IFA member companies and affiliated businesses serving the franchise industry. Write the IFA at 1350 New York Ave., N.W., Suite 900, Washington, D.C. 20005. On request, the IFA will also send you its publications list.

The 1993 *Franchise Annual* (Info Press, Inc.) is a handbook and directory of more than 4,800 franchise companies worldwide, with the most complete listings for the U.S. and Canada. One part covers the franchise-disclosure rule required by the Federal Trade Commission, preparation of a disclosure statement, franchisee profiles, and state regulations.

Priced at \$39.95 (including shipping and handling), the *Franchise Annual* may be ordered by writing or calling Info Franchise News, 728 Center St., Box 550, Lewiston, N.Y. 14092-0550; (716) 754-4669.

To meet with representatives of a variety of franchise companies, consider attending a franchise trade expo—or trade show. Seven Franchise Expos plus the International Franchise Expo, all devoted exclusively to franchising, are scheduled for 1993 in various cities.

Produced by Blenheim International Franchise Expos, Inc. and sponsored by the IFA, each Franchise Expo features up to 100 franchise exhibitors; the larger International Franchise Expo, in April, expects 400 exhibitors. Admission is \$5 to \$6 per day for Franchise Expos and \$15 per day, or \$25 for the weekend, for the International Franchise Expo. The expo schedule:

- Jan. 23-24: Miami
- March 13-14: Boston
- April 23-25: Washington, D.C. (The International Franchise Expo)
- June 26-27: Philadelphia
- July 31-Aug. 1: Dallas
- Aug. 14-15: San Francisco
- Sept. 11-12: Chicago
- Oct. 30-31: Atlanta

For more information, contact Blenheim International Franchise Expos, Inc., 1133 Louisiana Ave., Suite 210, Winter Park, Fla. 32789; (407) 647-8521.

oped in the lodging industry. Choice Hotels, headquartered in Silver Spring, Md., offers franchises to small, upscale inns and hotels throughout the country, which typically attract customers who don't mind paying higher prices for the exclusivity of a small country inn.

The franchise system is called the Clarion Carriage House Inns, and there are 24 franchised properties throughout the U.S. and in Argentina and Australia. All of the franchises were formerly independent inns, and many of them were historic buildings.

For Clarion Carriage House Inns franchises, being part of the franchise network means more business because of the state-of-the-art reservations technology offered through the franchisor, Choice Hotels.

Owning a franchised business may not necessarily be the answer to surviving in a slow-growth economy, but for thousands of franchisees and franchisors who work hard at meeting their customers' needs and delivering value for the dollar, running a franchise may end up being the best business insurance they could have this year.

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FRANCHISING: A SPECIAL GUIDE

Franchising In Congress And State Capitols

The new year is expected to see extensive debate on whether government regulation of franchisor/franchisee relationships should be expanded.

At the national level, Rep. John J. LaFalce, D-N.Y., chairman of the House Committee on Small Business, is expected to press for enactment of two bills that he terms "legislation to promote fair franchising." He introduced the measures in 1992 after conducting a two-year study into complaints from franchisees, and he intends to reintroduce the legislation in 1993.

State legislatures also are focusing on franchising. Of the 35 states with laws on franchising matters such as disclosure, registration, and franchise-relationship definitions, the most stringent is Iowa's. A key question is whether states will adopt as model legislation the controversial Iowa Franchise Act of 1992.

The Iowa law requires, among other things, that franchisors operating in that state disclose certain information about their companies to prospective buyers. It also stipulates that franchisors agree to pay fair market value for any franchise location they decide to close. Moreover, franchisors are barred from terminating, refusing to renew, or denying a transfer of a franchise to another owner except for "good cause."

The International Franchise Association (IFA), representing franchisors, says the law makes franchise development in Iowa "onerous."

Carl E. Zwisler, a Washington, D.C., franchise lawyer who specializes in helping franchisors and franchisees avoid and resolve disputes, says, "Franchisors and their representatives have universally characterized the Iowa Franchise Act as the worst franchise law ever passed."

Zwisler notes that companies such as McDonald's Corp. have challenged the law, "particularly the part that applies to franchise relationships created prior to passage."

The IFA, based in Washington, D.C., says that both franchisors and franchisees have a stake in maintaining the viability of a steadily growing industry that has benefited both sides of the arrangement. While some "discontented franchisees and frustrated franchisors" have encountered problems, says IFA's 1993 chairman-elect, Stephen Lynn, the association "believes franchising must move towards self-regulation instead of increased state and federal

regulation." He says the IFA's goals are communication and cooperation, not confrontation.

Lynn notes that IFA has adopted a new, more-stringent ethics code "to promote ethically sound, fair, and honorable business practices." Nonetheless, he adds, "we also understand that the mere existence of a code of ethics will not preclude disputes from developing between franchisees and franchisors."

When disputes do arise, Lynn says, differences should be resolved through "negotiation, mediation, arbitration, and other alternative dispute-resolution techniques. We must focus on proactive settlements of disputes without resorting to litigation or legislation."

The focus of IFA's 1993 efforts to head off what it considers excessive regulation will probably be the two LaFalce proposals. The first is a measure that has been known as the

Franchise Disclosure and Consumer Protection Act. It calls for a strengthening of the current federal law governing franchise disclosure and anti-fraud enforcement, and for making public more information about the franchisor's profitability and prior experience with franchisees.

The second proposal—which has been known as the Fair Franchise Practices Act—includes provisions that would prohibit fraud, deceptive practices, and discrimination between franchisors and franchisees; prohibit a franchisor from terminating a franchise without good cause; and limit the ability of franchisors to require franchisees to purchase equipment, inventory, supplies, goods, or services from the franchisor.

Although LaFalce has been pressing for increased regulation, there are no clear signals that he would be able to mobilize majority support for his measures.

Franchising's role as a major sector of the economy—\$757.8 billion in sales in 1991 and 7.2 million employed by franchises—would be a strong deterrent to precipitous action. Lynn says that in 1992 alone, more than 18,500 franchised businesses began operation, adding more than 100,000 jobs to the economy.

Lynn says that the foundation of the IFA's ethics code is "the principle that franchising provides a beneficial business relationship between the franchisee and franchisor and that ethical business practices are central to the continued success of franchising."

"Ethical business practices are central to the continued success of franchising."

—Stephen Lynn,
International
Franchise Association



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MANAGING

Where "Quality" Is A Language

By Michael Barrier

When thousands of people in a city like Spartanburg, S.C., begin to understand what quality management really means, the results can be extraordinary.



PHOTO: T. MICHAEL KEZA

In 1983, the manager of a Monsanto Corp. plant in Spartanburg, S.C., came to the local chamber of commerce for help. The plant had made textiles until 1980, when it began manufacturing silicon wafers, from which computer microchips are made. Monsanto's silicon wafers were sold in a global marketplace that was ever more competitive, and the plant's manager was seeking ways to improve quality and productivity.

A decade later, the ripples from that meeting are still spreading—and they are starting to touch and benefit small firms.

The Spartanburg Area Chamber of Commerce learned that other businesses in Spartanburg County shared the Monsanto manager's concerns, and it set up a committee to explore ways to address them. The committee decided that a far-reaching quality program, based on the ideas of W. Edwards Deming, would best meet the needs of Spartanburg businesses.

Deming has probably given the tenets of the quality movement their purest and most rigorous expression. Those tenets include the use of customer satisfaction as the ultimate criterion of quality; worker empowerment; reliance on statistical process control rather than final inspection; and continuous improvement of production processes.

Deming demands that managers adopt not just new techniques but a new philoso-

Wayne Steinberg, center, vice president of the Spartanburg Area Chamber of Commerce, visits with President Rick Dent, right, and Vice President Odell Bragg of Mayfair Mills, a textile manufacturer that has embraced a quality program.

phy—in particular, that they rethink their roles and become leaders and mentors rather than bosses.

The chamber worked with QualPro, a then-new quality-management consulting firm based in Knoxville, Tenn., to develop what it called its Quality in the Workplace program. At the heart of the program were four-day seminars laying out the basics of quality management in terms generally consistent with Deming's views.

Conceived as a short-term effort, Quality in the Workplace has instead picked up steam over the years. The chamber says that 3,000 people have attended QualPro's Spartanburg seminars—there are 10 to 14 a year—and that around 40 of the county's 50 largest companies have been represented.

Participants have spread the quality gospel to their own companies, and those companies have influenced their suppliers by making new demands on them based on quality-management concepts.

QualPro's presence in the community has given shape and coherence to quality efforts that might otherwise have floundered. For example, Frederick B. "Rick" Dent, president of Mayfair Mills, a large textile manufacturer in Arcadia, S.C., just

outside Spartanburg, recalls that he attended a week-long Deming seminar in Detroit about 10 years ago. In that seminar, Deming emphasized the importance of statistics. "When I came back," Dent says, "all of a sudden we had charts everywhere; but we didn't know how they interrelated."

Then, he continues, "we stepped back, with the assistance of QualPro, and realized that statistics are a tool for implementing an overall change in philosophy. With that in mind, we made big headway." Even now, a QualPro instructor visits Mayfair once a month to observe what the company is doing and to offer comments.

The seminars have facilitated quality efforts in subtler ways. "The QualPro courses provide a common language, to some degree," says Dan J. Hargett, the current manager of what used to be the Monsanto plant (it was sold in 1989 to a German chemical company and is now known as MEMC Electronic Materials). "After a while, you tend to put things in quality language."

But as important as the seminars have been, it is in their other dimensions that the chamber's efforts may have had their greatest impact. "A lot of the chamber's

MANAGING

activities are built around networking," says Wayne I. Steinberg, the chamber's vice president for quality programs. "Any company can go find training somewhere; they don't need the chamber for that. But networking is a real value that we can provide that they can't get on their own."

The chamber encourages networking through bimonthly "quality dinners" for

consciousness has undoubtedly made it more attractive to foreign manufacturers. The Spartanburg chamber puts total foreign investment in the county (which has a population of around 230,000) at \$1.5 billion, which the chamber says is the highest per-capita foreign investment for any county in the U.S.

"It keeps building on itself," Steinberg

ones typically facing international competition."

There is, however, evidence that interest in quality management is quickening among small firms in the Spartanburg area. "We've had 50 or 60 benchmarking visits the last 12 to 18 months," says H. L. "Dunk" Hale, MEMC's quality-improvement manager, referring to the technique by which companies measure themselves against outstanding firms as a way of determining where they most need to improve. "Probably 90 percent of those are small businesses."

In general, though, Steinberg says, smaller companies don't want to invest the money and time that a serious quality effort requires. The chamber is now trying to come up with a seminar aimed at small businesses, to be offered for a few hours in the evening each week.

What really holds small companies back, says Jerome V. Bennett, the dean of the business school at the University of South Carolina at Spartanburg, is "the perception by the chief executives that they just don't have time to devote to the training effort. They're too busy running the shop. The fact that ABCO has come around to doing it makes it an awfully good role model."

The ABCO to which Bennett refers is a Roebuck, S.C., company that makes chemical products for the textile industry—products that the average consumer would never be aware of but that are critical to the look and texture of many fabrics. One such product ABCO makes is sizing, which is, in effect, a temporary plastic coating that is applied to fiber so it can be woven.

ABCO, now a 125-employee firm, started as a family firm, although a few key nonfamily employees now own a large part of it. A.B. "Al" Bullington Jr.'s father started ABCO in 1961. Al joined the firm, as he says, "on Day One" and has been president since his father retired in 1973.

In the late '80s, Bullington recalls, ABCO executives surveyed the textile industry and decided that the best opportunities for growth lay outside the U.S. "That probably had some influence on our decision to change our management style," he says.

In addition, says Vice President Edward E. "Ned" Page, "our customers were pressuring us." That pressure came not in the form of direct demands that ABCO adopt a quality program. Instead, Page says, he was dealing with people—"people I eat lunch with a lot"—who were talking about their own quality efforts in a way that made him "feel somewhat envious."

ABCO executives called Steinberg and met with him, and they followed his counsel to put top executives through a QualPro seminar. When they started the seminar, they had no idea how much



PHOTO: T. MICHAEL KEEA

Al Bullington, right, president of chemical-products maker ABCO, says that quality management gives executives time to "focus on where the company is going." From left are Vice President Ned Page and employee Gene Brown.

100 to 150 participants, and through monthly, and much smaller, "networking round tables."

Training, as in the QualPro seminars, can educate companies in the right way to do things, Steinberg notes, "but by networking with other companies, you hear the wrong way to do it." There's a very strong correlation between success and being open about mistakes, he says: "The ones that are all positive about their quality programs probably don't have that great a program."

Says MEMC's Hargett: "We feed off each other. It gives us a commonality. 'What are you guys doing?' is almost the first question that you ask" when business people in the area get together.

There is no way to measure precisely how much the Spartanburg chamber's quality programs have contributed to the area's prosperity, but the figures are striking nevertheless. From a high of 13 percent during the recession of the early '80s, the county unemployment rate shrank to below 4 percent in the late '80s, rising to only a little above 5 percent even during the recent economic doldrums.

The Spartanburg area's quality con-

says, "Back in Europe, the word gets around that Spartanburg is a good place." In the most recent piece of good news, the German auto manufacturer BMW announced that it would build a \$1 billion plant near the airport that serves Spartanburg and neighboring Greenville.

The quality movement has spread beyond for-profit companies into the non-profit arena; the United Way of the Piedmont, for example, adopted a quality program in 1990, with "mentoring" from the Chamber's Wayne Steinberg. "I don't think that the not-for-profit sector is really different from the for-profit," says Vincent M. Pulskamp, United Way's president. "We ought to produce a return on investment to [the members of] the community, who are our stockholders."

Small companies have not yet been major beneficiaries of the chamber's quality efforts. "We've been so consumed with just meeting the needs of the larger companies that we have not had the time or the resources to have a major focus on small business," Steinberg says.

Larger companies "were the ones to embrace it and ask for it," he says of the Quality in the Workplace program. "They were getting a lot of pressure from their customers to improve, and they were the

change awaited them, Page says. "We were incredibly naive about the whole thing."

Bullington had thought he had so many problems on his desk that he wouldn't have time to get involved in quality management. "But after going through some of this training," he says, "I realized that I didn't have to handle all of these problems. I had people who could handle them for me. I had to learn to sit back and let them do it."

In the spring of 1990, with the first round of training behind them, ABCO's top executives began trying to figure out how a quality program might work at their firm, Page says, "without damaging the company, or taking up too much time."

In forming employee teams, ABCO started first, in May 1990, with a team to deal with, as Page says, "something easy to measure, something tangible, something that we knew could be a success story." That so-called "steam team" studied the energy that ABCO consumed in the form of steam. The team, which included some employees who knew nothing about steam before working on the team, produced savings of more than \$60,000, mainly by renegotiating ABCO's contract with its steam supplier. As Page says, "It was unheard of for someone outside of management to do that."

ABCO's executives went one step further: They tried to give their employees an emotional understanding of what the company wanted to achieve. In 1991, they did that through training that encouraged employees to examine their own lives, in the same way that the company was examining itself. Individual employees wrote their own "mission statements" for their private lives, and "all kinds of wonderful things happened," Page says. "We had people who were sending flowers to their wives, and people going back to church who hadn't been to church in a long time. It was so easy to tie that into quality management, and what our company was going to be faced with."

Thanks to that emotional comprehension of quality management, ABCO has been able to move much more rapidly than most experts would say is possible. For example, at MEMC—in many ways, a model quality-management facility—the formation of "high-performance teams" began in 1989 and won't spread throughout the plant until late in 1993. At ABCO, where quality efforts didn't get well under way until early 1991, about 80 percent of the employees already belong to teams.

The introduction of teams didn't go

altogether smoothly—"we fell into the pit," Bullington says, because the teams didn't get enough guidance from management at first—but the initial confusion has long since cleared up. "Today," Page says, "people knock each other down getting into a meeting, because they see it as a way to get rid of their problems. Before, you couldn't drag them into a meeting."

The challenge is to get top management to accept change.

Wayne I. Steinberg
Vice President
Spartanburg Area
Chamber of Commerce

What happened at ABCO is thus an excellent example of one of the paradoxes of quality management: Small firms are often slow to move into it, but once they do, they usually find that it meets their needs even better than it meets the needs of large companies. The cultural changes that may take years in a big com-

pany can come much faster in a small firm where people know each other, and their customers, very well.

If there's a downside to quality management, Page says, it is that teams' good ideas can create demands on a company's resources. "Using those resources wisely

is what ramps us at a greater rate than our competition," he says, "and we're trying to do a better job of that."

ABCO has already met what Wayne Steinberg calls "the biggest challenge: to get top management not only to accept that they need to change but actually to do it."

Al Bullington suggests that all it really takes is for top managers to taste the sweet rewards that quality management can bring. "We all of a sudden find that we've got some free time," he says. "I have time to study and focus on where the company is going."

Early in the quality effort, Bullington admits, "I struggled hard; I floundered." But today, he says, the demands of his job "are less than half what they used to be." He meets now with close to 80 percent of ABCO's employees every month, he says, by sitting in on team meetings: "All of a sudden, I know what's going on again." And in what has to be the strongest possible endorsement of quality management, he says, "I've even got where I enjoy coming to work." Probably a lot of other people in the Spartanburg area could say the same thing.

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Women In Business

Bargaining from strength; an increase in advocacy; recognizing the achievers.

By Sharon Nelson

NEGOTIATING

The Womanly Art Of The Deal

When it comes to negotiating, women business owners have special strengths and weaknesses, according to Chicago attorney Laurel G. Bellows, immediate past president of the 22,000-member Chicago Bar Association.

Women are great at building relationships, building consensus, and being creative, says Bellows. These assets work well for them in "nonpositional" negotiation, where the parties are using creative and cooperative methods to come up with a deal that helps both sides.

Much negotiating today, however, is adversarial and confrontational, she says. Most women, even if they are top business people, are uncomfortable in a confrontation, says Bellows, 44, a partner with her husband in the law firm of Bellows and Bellows. When women go to the bargaining table, "they want to make friends," she says. "And now you place them in a situation where that cannot be, if they're going to make the best deal for themselves."

Because of the way they're brought up, men generally have more self-esteem than women, Bellows says. They have learned to confront and to argue since they were young boys playing sports. What this means for women, she suggests, is that they have to shore up their self-assurance and learn to "work both styles" of negotiating. She offers these tips:

Be prepared. "Preparation is power," Bellows asserts. She advises visualizing in great detail the agreement you want to reach and how it will work day to day. This means you will be negotiating on the basis of your own agenda, not someone else's.

Preparation also means identifying very specifically what your best alternative is. "That is the alternative to which you should be comparing what is on the table in your negotiation," she says.

And finally, preparation calls for research on the other party. "In order for

you both to negotiate a great deal for both of you, you're going to have to know what their needs really are," says Bellows.

By putting out some inquiries to your banker, your accountant, your stockbroker, the other party's suppliers, or other people in the same industry, you can find out the state of the other party's business—whether that party is facing an

Bellows observes. The other party may say, "I'll sell this property to you for \$100,000. What do you think?" A woman will almost always respond (even if she doesn't say *exactly* what she thinks), but a man might use silence instead.

You can just "stand back and let the other person fill their own silence," says Bellows. "Let them feel compelled to offer the next bit of information. Let them feel compelled to speak. Lots of things happen that you don't anticipate."



PHOTO: SUZAN ZICH

Chicago attorney Laurel G. Bellows says a willingness to be confrontational is necessary at today's bargaining tables.

emergency, for example, or expanding.

Make use of men's stereotypes about women. Bellows says that there are times when she doesn't mind letting men she's negotiating with know she's a mother because they might assume that she won't put "24 hours a day, five days a week, into this negotiation."

They might learn that she's planning a vacation with her family and think that she'll be eager to wrap up the deal before she leaves. "Then they're going to be very surprised when they find out that that isn't what my priorities are, that I've sent my family on without me," she says. "And then I'm a whole lot grumpier because of it and a whole lot less likely to give them what they want."

Use silence as a tool. Women tend to jump in and talk when things get quiet,

Get someone to mentor or guide you in a particular negotiation. Look for someone who is creative and clever, she advises. Use that individual to help you visualize the agreement you want and to walk you through a series of questions that will help you think through the negotiation.

Be a chameleon. Bellows points out that unlike men, women aren't "stuck" in a limited number of looks or roles. Men, she says, "can't smile a lot because [other] men would think that they're weak." But women, she notes, can smile, complain, be tough and aggressive. "Women have a number of roles that they can play, none of which has to

carry them through the whole negotiation. They should just get comfortable with a variety of roles."

For example, Bellows says women clients have asked her what to do if they get up from the bargaining table to pour themselves some coffee. Should they pour for everyone else, too? Will that turn them into the role of the one who pours coffee, and will they lose ground?

Bellows says it is OK to pour coffee for others if you are comfortable doing so and if you have a reason to do it. It's a gesture that can keep adversaries off balance. It builds trust while at the same time letting them know that they can't anticipate your next move.

Says Bellows: "I pour coffee if I want to. Because it's a way of building a little rapport. Because the next sentence out of my mouth could be the nastiest thing I plan to say."

Someone Who's On Your Side

You have probably heard of NAWBO, the National Association of Women Business Owners. But how about NAWBA, the National Association of Women's Business Advocates?

Just five years old, NAWBA is made up of the women—and a few men—whose job is to promote women's business ownership in their respective states. There are still only a dozen or so states that have designated such advocates, although other states now have women's business activities housed in their programs for small or minority businesses, according to NAWBA President Melody K. Borchers.

"We prefer to see a state commit state staff and budget," specifically to a state-level women's business program, says Borchers. She points out that in getting state financing programs and state contracts for women entrepreneurs, a specially designated women's business advocate can have more impact than a program for small firms or minority-owned businesses.

Borchers, who is based in Columbus, is the manager of Ohio's two-person Women's Business Resource Program, which serves as an information clearinghouse and advocate for the state's estimated 200,000 women entrepreneurs. For example, Borchers' office can help a woman cut red tape in getting certification for her company as a woman-owned business or in obtaining financing.

"One of our major success stories is the [establishment of] the Ohio miniloan," says Borchers. The miniloan program targets women business owners with guaranteed loans of under \$100,000.

Although it has no formal relationship with the U.S. Small Business Administration, NAWBA was actually started by Nancy L. Smith, SBA's regional manager for women's business programs in the agency's Region V office in Chicago. NAWBA serves as a trade association for its members and enables them to learn from one another.

Lenore H. Cameron, director of Pennsylvania's Bureau of Women's Business Development, says that although access to capital is important to business owners, what sets women entrepreneurs apart is their need for access to information. When asked if the information isn't as readily available to women entrepreneurs as to men, she recalls an experienced woman business owner who, after a discussion of existing resources and information, said, "You know, I've heard about all this stuff, but I never realized that it was for us."

The availability of information is a "recent phenomenon," says Cameron. "That's why organizations like NAWBA are important, why there needs to be a women's business advocate in every state, or someone who functions in that capacity."

Cameron, who is based in Harrisburg,



PHOTO: GLENN RYAN

Ohio advocate Melody Borchers, right, confers with Columbus business owner Zuni Corkerton.

says, "If you provide access to the information, the women will do the rest."

NAWBA and the National Women's Business Council have put together a directory of programs that assist women entrepreneurs on a state-by-state basis. While the directory is not available to the general public, you can find out what's available in your state by calling Melody Borchers at 1-800-848-1300.

AWARDS

Programs Honor Businesswomen

The Women of Enterprise Awards and the Race to the Top awards are among the national programs that recognize the accomplishments of women in business.

Now in its seventh year, the Women of Enterprise Awards are sponsored by Avon Products, Inc., and the U.S. Small Business Administration.

The awards honor five women entrepreneurs who have overcome hardships to achieve their success. Winners receive \$1,000 plus a three-day, expense-paid trip to New York in June.

Jan. 25 is the deadline for applications. To obtain an application, send a stamped (98 cents), self-addressed, 9-by-12 envelope to Women of Enterprise Awards, Avon Products, Inc., 9 West 57th St., New York, N.Y. 10019.

Launched in 1992, the Race to the Top awards are sponsored by Bridgestone Tire, a division of Bridgestone/Firestone, Inc., and based in Nashville, Tenn.

The awards recognize leading business-

women, particularly those who have excelled in male-dominated fields. They are presented to women nominated by the National Association of Women in Construction, Financial Women Interna-

tional, and the Women's Council of Realtors. For more information on the program, call John Taylor, Bridgestone's public-relations manager, at (615) 872-1417 or 1-800-851-7000.

RESOURCES

Publications Offer Help, Opportunities

Women entrepreneurs can find help, inspiration, and sales opportunities in the following publications:

■ *The Entrepreneurial Edge* is billed as "a training magazine for women business owners." Recent topics have included access to capital, and building a successful sales team. Annual subscriptions are \$35 for eight issues. The magazine also sponsors seminars and conferences. The next conference, "Strategies for Success," will be in Philadelphia on Feb. 4. It is aimed at helping women take their businesses to the next level of success. Contact *The Entrepreneurial*

Edge, 656 E. Swedesford Road, Suite 220, Wayne, Pa. 19087; (215) 975-9130.

■ *Women Networking*, a twice-a-year newsletter that aims to connect "dynamic women" with one another. It focuses on topics such as women in public service and women and mentoring. For a sample copy, send \$1 with your name and address to *Women Networking*, c/o Jan Cook Reicher Associates, P.O. Box 1596, Hoboken, N.J. 07030.

■ *Thomas Publishing's Directory of Minority & Women-Owned Suppliers* will debut in the spring. Companies interested in a free listing should contact Tamara Adams, associate editor, at (212) 290-7341. For ordering information, call the Thomas Publishing circulation department at (212) 290-7277.

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Family Business

Core beliefs that can be hazardous; bringing in the family; how to handle betrayal.

OBSERVATIONS

Challenge Your "Fundamental Assumptions"

By Sharon Nelton

In the seminars he conducts and the family businesses he consults with, Thomas M. Hubler hears them all the time: He calls them the "fundamental assumptions" or "core beliefs" that family members hold about their family and their business.

Left unchecked, such assumptions can be hazardous to the health of a family or a business. "What happens is we begin to operate as if they're true," says Hubler, a

striving for—recognition, appreciation, love, and so forth," he says. But in our culture, men struggle for these through work and measure themselves "by how big their businesses have gotten." They believe they are running their businesses for the family, but what the family members assume—because of the business owner's behavior—is that the business comes first.

Or take the assumption that there's a place for every family member in the business (meaning the "business will take care of everybody"), or that to be regarded as a member of the family, you have to be in the business.

The frequent result of such assumptions, Hubler suggests, is that younger family members make bad career choices. They may go into the business not because they want to or have the talent for it but because they don't want to hurt their parents or because that's the only way they can feel connected to the family.

How do you avoid the pitfalls of assumptions? By continually challenging them, Hubler answers. "Re-evaluate them and see if they're relevant—because people change, businesses change, and circumstances change." What marks a successful business and a healthy family, he says, "is their ability to continue to challenge their core beliefs and to bring them up for discussion."

It's also important to speak "from the heart" about your own wishes and desires. One son, he says, wanted to be an artist but went into the family business instead because he didn't want to disappoint his parents. His parents had no idea what the son really wanted until he finally had the courage to tell them. And to his surprise, they supported his decision to become an artist. They just wanted him to be happy.

In family businesses, Hubler contends, there are two bottom lines—the financial bottom line and the emotional bottom line. "The real bottom line," he says, "is the emotional bottom line."

**Core beliefs
can limit or even
hinder a family,
a business, or
both.**

—Sharon Nelton



nationally known family-business consultant based in Minneapolis. If they're not true but people behave as if they are, assumptions or core beliefs can limit or even hinder a family, a business, or both.

Here are some examples:

- "There will always be a place for you in this business."
- "If you're not in the business, you're not really in the family."
- "Equal treatment of children means fairness."
- "The family is not as important to the founder as the business is."

That last assumption especially troubles Hubler. "I believe just the opposite," he says. "I believe that the family is more important to the owner-entrepreneur than the business is."

The problem, he says, is that family-business founders, usually men, have a difficult time handling issues of love and intimacy. "Down deep inside, what they're striving for is what we're all

PLANNING

Rules For Nepotism

By Craig E. Aronoff and John L. Ward

A young college-bound woman wonders about her plans for study and the possibility of joining the family firm. A nephew denied employment in his family's firm battles a sense of betrayal. Three cousins moving toward executive slots worry that "too much family will spoil the broth." A father is concerned that unqualified relatives see the family business as "employer of last resort."

How much nepotism is good nepotism? That question is frequently asked as a family contemplates involvement of a new generation in the family firm. Defining rules or policies for family-business participation sets critical precedents. Thoughtful families recognize the inevitability of the matter and give it conscientious consideration. Of course, many families eagerly hope to attract the next generation to the business. While that heartfelt desire is hard to discourage, we urge you to use your head as well as your heart.

Our experience with successful family firms has taught us a very clear lesson on nepotism: How strict or liberal the rules for entry are is less important than clear communication of the rules before they are needed and fair application of the rules when timely.

We believe that family members should meet certain qualifications before making the family business a permanent career. We recommend at least three standards:

- Education appropriate for the job sought.
- Three to five years of outside work experience.
- Entry into an existing, needed job, with precedents for pay and performance expectations.

When we discuss these criteria, we are most often challenged on the question of outside work experience. We've talked with hundreds of successors, and we've rarely heard any express regrets about having had outside experience. Most who lack it, however, wish they had it and recommend it to others.

Outside experience is good for the business and, most important, good for the person. In the long run, the business

PLANNING

benefits in at least three ways: First, future top managers have wider, more varied experience, adding to their creative ability to deal with challenges. Second, all employees are reminded that merit is more important than paternalism. And third, having learned that "the grass isn't greener," returning family members have more respect and motivation for the family's business.

When individuals gain outside experience, they learn their market value. They receive objective performance reviews. They make mistakes away from the watchful eyes and long memories of employees in their family's firm. They earn the self-confidence of independent success. As one business owner puts it, "They've had their spots knocked off elsewhere; they've learned honest expectations for themselves."

Some families establish rather unusual participation policies. For example, the owners of one heavy-goods manufacturing firm we know require a year of retail store experience; they believe that working with the public is an important life skill. Another family requires an MBA from one of three specific prestigious schools. Many European families require multilingualism and work experience on a different continent to assure global perspective.

In cases where the next generation has already joined the business or for those with policies more liberal than our suggestions, similar issues can be addressed in different ways.

Families can encourage independent achievement and breadth of perspective via involvement in industry or civic groups. Performance reviews and coaching can be provided by industrial psychologists, organizational consultants, and/or outside directors. Self-confidence can be fostered by responsibility for an autonomous profit center within the family business. Education can be emphasized by encouraging enrollment in night school and special seminars.

Here are other guidelines that families we know have found useful:

■ Family members are encouraged to work part time in the business during high school and college to whet their appetite for the business and to learn the work ethic. If the business offers internships to college students, family members are urged to participate.

■ Family members also are urged to find jobs elsewhere during school years to reduce the possibility of becoming permanently dependent on the family business.

■ Family members may leave the family business and return—so long as the new job is a true vacancy.

■ A family member will be discharged for any illegal or unethical business conduct or for breaking any family code of confidentiality. Some families stipulate exile for a minimum number of years; others make it clear that a discharge means forever.

■ Family members must declare their intentions by age 35 so family members managing the business can solidify their leadership team.

■ Exceptions to family-participation policies are possible, but with counsel from the business's outside directors and/or the family's "council of elders."

These are, of course, only suggestions from our experience. Each family should consider its own circumstances: culture, history, business, and family size.

The conviction behind the rules is usually more important than the rules themselves. That's why we urge you to explain your thinking as clearly and as thoroughly as possible. Why are your rules good for individual family members? Why are they good for the business? What's special about your family's experience or values that influences your thinking?

Discuss these issues with your family so that the policies that emerge are the family's. Then share the policies with everyone affected by them as they begin the process of deciding what they'll do when they grow up.



PHOTO: T. MICHAEL KEER

John L. Ward, left, is the Ralph Marotta Professor of Private Enterprise at Loyola University Chicago. Craig E. Aronoff holds the Dinos Chair of Private Enterprise at Kennesaw State College in Marietta, Ga. Both are family-business consultants.

Developing A Policy

Here are some questions you should think about as you develop a policy governing family members' participation in the family business:

■ What are the requirements for a full-time position?

■ What are the rules for spouses and former spouses?

■ What are the rules on reporting directly to other family members?

■ When is it too late to enter the business?

■ What considerations should be made for family members in serious need?

■ What rules should be developed on working for a competitor?

Mark Your Calendar

Jan. 15, Chicago

"Communicating Values in Business Families," featuring *Nation's Business* columnist Craig E. Aronoff, is a daylong program for members of the Loyola Family Business Forum. Call the Loyola University Chicago Family Business Center: (312) 604-5005.

Jan. 19-20, Corvallis, Ore.

A "Succession-Survival Hands-on Retreat" takes participants through a series of practical exercises on succession planning. To be repeated March 2-3. Contact the Family Business Program at Oregon State University; (503) 737-3326.

Feb. 23, Goshen, Ind.

"Passing the Torch: Transfer Strategies for Your Family Business," a seminar featuring Mike Cohn, author of a book by the same title. For members of the Goshen College Family Business Program. To inquire about membership, call (219) 535-7451.

March 30, Spokane, Wash.

The Washington Business Succession Project offers a seminar on succession planning conducted by the staff of Oregon State University's Family Business Program. Participants must attend a follow-up program April 21-22. The two-part program is to be repeated in May. Call (503) 737-3326.

June 9-11, Cleveland

"Managing Succession Without Conflict," a seminar led by family-business consultant Léon A. Danco. Contact the Center for Family Business, 5862 Mayfield Road, P.O. Box 24268, Cleveland, Ohio 44124; (216) 442-0800.

How To Get Listed

This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000.

CASE STUDY

Betrayed By His Son-in-Law

David's small home-tool manufacturing business has been shaky since the start, but it has survived five years and now looks like it has a chance of success. His son-in-law and partner, Ken, has been making some good sales lately, and an infusion of capital from Joe, a new silent partner, is putting the business on a more solid footing.

Still, there's often not enough cash to pay David a salary. His wife, Angela, still works as an office manager to support them and the two teenage daughters who are still at home. The third and oldest daughter, Diane, who is Ken's wife and who is pregnant, works as a secretary to make ends meet. "I'm so happy you're finally going to be a grandfather," she has told David.



ILLUSTRATION: DAVID CHEN

The majority shareholder, David has always overseen product development and manufacturing, leaving sales, finance, and administration to Ken. David hates handling money and paperwork. An experienced

businessman, Joe has made himself available to offer advice and counsel. David, in turn, has invited Joe to visit the plant and has told him to feel free to look at files, records, and whatever he needs to become even more helpful.

One weekend, at Joe's insistence, David takes time to review the books himself. He begins to discover what Joe has already learned: that Ken is cheating on David and lying to him. Ken has often paid himself at times when he has told David there wasn't enough money for salaries. He has even deliberately failed to purchase badly needed supplies, jeopardizing the fulfillment of orders. David's heart sinks. "I trusted Ken!" he says to himself.

Furious and feeling betrayed, David's first impulse is to go over to Ken's house and beat him up. Only his concerns for his daughter, her marriage, and the impending grandchild stop him. What can David do in a mess like this?



Bring The Family Into The Process

Kay B. Wakefield, partner in Wakefield and Browning, a Portland, Ore., law firm specializing in family-owned business:

David's lack of oversight provided the opportunity for the betrayal by his son-in-law. Now he must clean up this mess and adopt a system of checks and balances to avoid a repetition.

David has three basic options. One is the "ostrich" approach. He could do nothing, hoping that Ken's productivity overcomes the problems. Here, David doesn't risk destroying family relationships in the short term, but he would breach his fiduciary duty to Joe and the corporation while postponing a satisfactory resolution.

Then there is the "Rambo" strategy. David could strip Ken of all powers, duties, responsibilities, and employment, and demand return of unauthorized salary. By doing so, David discharges his fiduciary duty and confronts the problem; however, he risks undermining his relationship with Diane, losing a good salesman, and still not satisfying Joe.

The third and best solution allows David to meet his fiduciary duties, ensure Joe's support, and preserve his relationship with Diane.

It also avoids "family secrets" and offers the most hope for healing. This solution calls for a family conference at which Ken is confronted and allowed to explain, apologize, and repent. After consulting with the family and with Joe, David then can decide which course to follow.

Again, he has several choices. After examining each area of the business involving Ken, David can decide whether to restrain, retain, or oust. He could force Ken from the business entirely, requiring return of the unauthorized salary. Or he could retain Ken as salesman and restrain his administrative duties. Or he could retain Ken as salesman only. What's important is that the family—and Joe—be involved in the solution.



PHOTO: SEBASTIAN BARTHOLOMEW

Heed The "Wake-Up Call"

Marta Vago, a family-business consultant and psychologist whose practice is based in Santa Monica, Calif.:

David's dilemma is twofold: As a father, does he do more harm by revealing to his daughter what he has learned about her husband, or by depriving her of the information? As a businessman with limited resources and limited business capabilities,

how does he initiate "damage control" measures and still move the business forward—without losing Ken's acknowledged contributions to the company?

With regard to the business, an indirect confrontation with Ken would work best. As the new partner, Joe could request annual audits of the company's finances, commencing in four to six months. This would put Ken "on notice" without making him lose face, as well as allow him time to cover his tracks as best he can and take positive action wherever it is still possible.

With respect to Diane, it is probably best if David takes no action now but remains vigilant. Should Ken continue to be dishonest and deceitful, David may decide that he has a duty to warn his daughter.

Ultimately, Joe's entry into the business may prove to be the best and most subtle leverage David has in dealing with his son-in-law. Joe has the right to demand that his investment be protected by having the company run in a businesslike manner with built-in accountability. Unless Ken chooses to persist in his dishonorable ways, a direct confrontation between Ken and David may never be necessary.

David should consider Joe's discovery as a "wake-up call" to take more responsibility in matters that do not appeal to him—money and paperwork. Like many entrepreneurs who start out by tinkering in the garage, if David doesn't learn to leave his tool bench to spend time with the books, he may well end up back in the garage—or worse, lose the house to which it is attached.

This is one of a series of case studies of family-business dilemmas, commented on by members of the Family Firm Institute and edited by Mike Cohn, president of The Cohn Financial Group, Inc., in Phoenix. The cases are real, but identities have been changed to protect the privacy of the individuals involved. The authors' opinions do not necessarily reflect the views of the institute. Copyright © by the Family Firm Institute, Brookline, Mass.

LESSONS OF LEADERSHIP

Hitting The Bull's-Eye

By Michael Barrier

Seventy years ago, a teenager named James D. "Doug" Easton suffered a gunshot wound in a hunting accident. While he recuperated, he started making arrows at his home in Watsonville, south of San Francisco. He sold them to archers, as a part-time business.

Easton continued making arrows part time for over a decade. In the mid-'30s, he quit what was then his regular job—driving a delivery truck—to become a full-time fletcher, or arrow maker. A few years later, he moved to Los Angeles.

Easton died in 1972, but James D. Easton Inc. is still in Los Angeles—in the Van Nuys section, in the San Fernando Valley—and it still makes arrow shafts. In every other respect, the company has changed radically. Doug Easton's son, James L. Easton, 56, has transformed his father's tiny business into a sporting-goods powerhouse with around 1,000 employees and annual sales that industry sources put at \$120 million.

Under Jim Easton, the company has won success in a remarkable way: by expanding its product line rapidly, even while remaining intensely focused. Easton is, at its core, not a sporting-goods company, but an *aluminum* company. "Easton products are lightweight, high-strength aluminum products," says Steve Whiteley, manufacturing manager at the Van Nuys plant. "That's where we've made our name."

Most of Easton's output is in two categories: equipment for team sports—sold by a branch of the company that calls itself Easton Sports—and equipment for individual sports, like archery, golf, skiing, and bicycling. Easton tends to sell products of the latter kind to other manufacturers, as opposed to selling them directly to dealers. Doug Easton stopped making finished aluminum arrows in 1949 and restricted himself thereafter to making arrow shafts—a policy that his son still follows. Otherwise, Jim Easton says, "we'd be competing with our customers."

Easton now produces around 20 million aluminum and composite arrow shafts every year—most of them at its plant in Salt Lake

City—making it far and away the largest such manufacturer. Easton's most impressive growth in recent years, though, has come as a purveyor of equipment for team sports—baseball and hockey, in particular.

Between 1985 and 1991, says Doug Kelly, president of Easton Sports, that branch "had a compounded annual sales growth of 29 percent a year"; it now accounts for the largest share of the Easton company's revenue. Easton products have won endorsements from such well-known professional athletes as hockey star Wayne Gretzky, of the Los Angeles Kings, and baseball star Will Clark, of the San Francisco Giants.

Comparisons with Easton's competitors are difficult, because all the companies involved are either privately owned, like Easton, or part of a larger concern; but, Jim Easton says, "I think we're No. 4, behind Wilson, Rawlings, and Spalding." He sees Easton climbing to the No. 2 spot

From its start 70 years ago as a one-man arrow firm, Jim Easton's company has become a sporting-goods powerhouse.

in a few years if its current growth pattern continues. The endorsements by the likes of Gretzky and Clark are part of an effort to, as Easton puts it, "get that brand building."

All of the products that Easton makes itself, like arrow shafts, baseball bats, and hockey sticks (it contracts out the production of such things as baseball and hockey gloves), start with aluminum tubing. Easton makes some of its aluminum tubing, but it buys most of it from larger manufacturers; in either case, it's what Easton does to the tubing that really matters.

As Whiteley says, "We add value to it by manipulating the grain structure in the aluminum. Many, many years of research have gone into working the aluminum to give it the strength that's necessary for our products. We're able to make a stronger, lighter bat, which is what the player wants." Easton makes around 1.5 million bats a year.

You might assume that the technology that Easton has developed for sporting goods would be readily adaptable to other uses, and you would be right. But as Jim Easton decided some years ago, for a company to be capable of doing something doesn't necessarily mean that it should do it.

"When I was looking for new products to bring into the company," he recalls, "we went off for a couple of years trying to sell our tube-drawing expertise to other manufacturing companies. We offered ourselves as a custom house, when they had a customer who could not find something in the standard mill."

The idea, he says, was to "play off our expertise that we developed in producing arrow shafts, which was drawing aluminum tubing to precision tolerances" that were 10 times better than those that an ordinary tube mill could produce.

"We did that for a while," Easton says, "but then I realized that we were a job shop," and, as such, vulnerable to the economic ups and downs that afflict any job shop. "I felt it would be better to put our time and energy into product lines that we would own, and try to get some continuity in our production."

Easton all but dropped the cus-



PHOTO: SEBAST BARTHOLMEW

Easton Sports, says James L. Easton, makes its reputation with "the main piece of equipment, like the hockey stick," before adding complementary products.

LESSONS OF LEADERSHIP

tom work, except for a few long-time customers—and an occasional challenging high-tech project that is potentially of benefit to the sports business. (A current example: less-than-paper-thin aluminum tubing for the National Aeronautics and Space Administration.)

Unlike the kind of work that comes into a job shop, demand for sporting goods doesn't wilt in the face of recession, Easton says. "We've gone through this recession with continually growing sales and profits," he says. "A \$50,000 sports car is recession-sensitive, but a \$30 or \$40 baseball bat is less so."

Doug Easton started making aluminum arrows when the difficulty of achieving uniformity in his wooden arrow shafts drove him to look for a more cooperative material.

He bought some aluminum tubing and made a few sets of arrows in 1939, but World War II interrupted his efforts. After the war, he couldn't get a mill to produce tubing to his specifications—the quantity was too small—so he bought some standard tubing and figured out how to make it into what he wanted.

"He was willing to try things that other people weren't," Jim Easton says. "He developed a tube with a particular hardness," combined with resilience, that permitted an arrow to stay straight even when it was shot into a target. The Easton company still relies on Doug Easton's key discoveries. "To this day," Jim Easton says, "we haven't had a competitor that has put all the elements of our trade secrets together."

Doug Easton's techniques weren't directly applicable to such products as baseball bats, Jim Easton says, but "it's been basically that technology, and our amplification of that technology, that has led us into all these other areas."

The senior Easton began hiring his first employees outside the family in the mid-'50s—around the time that Jim Easton was completing his studies for an engineering degree. "It was an issue, yes," Easton says of his decision not to quit school and go to work full time when his father asked him to. "I wanted to finish school. So there was a conflict."

Rather than give in, Jim took a job with an aircraft manufacturer and completed work on his degree by attending classes at night. He worked for that manufacturer for five years—long enough to realize that he didn't want a career with a large company; then, he recalls, he and his father "got together."

Jim Easton's return in the early '60s coincided with a major change in the Easton company—at his direction, it began expanding beyond arrow shafts. Ski-pole shafts came first, in 1964. His father "kind of got pushed and shoved into that by my insistence that we try some-

thing new," Easton recalls. "I did a lot of it on my own, after hours."

Starting in 1970, the Easton company made aluminum baseball bats for another manufacturer, under a private-label arrangement. "But we wanted our name on the bat someplace," Jim Easton says, "because we didn't want them using our quality for a couple of years and then shifting over to somebody else, to save a

Quality Control" program about two years ago, and "we've had some pretty amazing results from it," says Whiteley, the manufacturing manager. "There has been a 20 percent increase in efficiency, and our equipment down time has decreased by 10 to 15 percent. Basically, wasted time is being eliminated."

Easton is relying on "the teamwork approach, the empowerment approach,"



All products made by Easton, like arrow shafts, baseball bats, and hockey sticks, start with aluminum tubing. Greg Tryon, quality assurance manager, examines baseball bats.

dollar a bat." After the manufacturer refused to do that, Easton brought out its own brand, in the middle '70s, and hooked up with an independent distributor.

When Easton bought that distributor—it now calls itself Easton Sports, as part of what Jim Easton admits is a confusing clutter of names—it was distributing only one product under the Easton label, the bats. "We were highly spring-oriented," Doug Kelly says, "as far as the cash coming in. We needed to develop our fall sports." That led to the ice-hockey line; at the same time, "we also expanded the baseball line," Kelly says, "to be more than just a bat company."

Now Easton Sports' plan of action, Jim Easton says, is to start with "the main piece of equipment, like the hockey stick or the baseball bat. Once we establish our reputation, we bring on other product lines to complement that."

The Easton company has another arrow in its quiver for the competitive wars: a quality program that is transforming its manufacturing operations. Through changes in the plant, Jim Easton says, "we've been working smarter. We've been able to build more without adding more people."

Easton launched what it calls its "Total

Whiteley says, and taking advantage of its employees' expertise: "Most of these people have worked here for many years—we have a very low turnover rate—and they probably know, better than any of us, how to make this product."

Each of the two dozen departments in the Van Nuys plant—many bearing such esoteric names as the "taper swage department" (that department shapes, or tapers, the bats)—wrote and posted its own "statement of commitment" early in 1992. Easton places a lot of emphasis on satisfying internal customers, Whiteley says, and that goal is typically part of the posted statements of commitment.

"In a manufacturing environment like this," he says, "very few people ever get to meet the final customer. So we [identify] the internal customers, and that's who [the departments] have got to please."

Pleasing the final customer is, of course, the ultimate point of all that internal activity. Wayne Gretzky not only endorses Easton hockey sticks, he plays with one—and no one doubts that he would quit doing that if his Easton stick ever let him down. As Whiteley puts it, "We're dealing with athletes at the top of their class, and they're completely unforgiving people."

Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Meg Whittemore

RETAILING

Ways To Grow

We have a small, independent chain of stores selling hand-painted sportswear, and we would like to expand by licensing others to sell the products. We aren't sure if licensing or franchising is the way to go. Do you know of a book that spells out the details of retail licensing?

J.K., Cruz Bay, St. John,
U.S. Virgin Islands

Try *Franchising & Licensing, Two Ways to Build Your Business* (AMACOM), by Andrew Sherman. Chapters 14 and 15 cover what is involved in licensing.

Licensing others to sell a product is a way for a company to grow quickly, Sherman says, but sometimes it leads to problems for a firm in enforcing its quality standards.

Franchising, on the other hand, can be a way for an expanding company to ensure that its additional units maintain the quality of its products and services. Under a business-format franchising arrangement, you would sell the right to use

your trade name or trademark to a franchisee on condition that the franchisee follows the business system you have developed for sales or service.

Because franchisors must provide ongoing support to their franchisees for many years, franchising generally requires more attention and effort than does licensing.

Franchising & Licensing, priced at \$27.95, is available at bookstores or by

writing or calling AMACOM, 135 West 50th St., New York, N.Y. 10020; (212) 903-8315.

A Sporting Chance

I am considering opening an outdoor-sports store for target sports, archery, fishing gear, and clothing. I need advice on how to find suppliers and any information on start-up.

G.L.M., Birmingham, Ala.

The National Sporting Goods Association offers a starter kit on opening a sporting-goods store. The kit includes information on suppliers, a financial planning guide, and a three-month subscription to the association's monthly magazine, *Buying Guide*.

The kit costs \$75 and includes unlimited use of the association's information center. For more information, write to the National Sporting Goods Association at 1699 Wall St., Mount Prospect, Ill. 60056-5780; or call (708) 439-4000, and press No. 2 in the voice-mail selection.



QUESTION OF THE MONTH

Managing Bankruptcy

Bankruptcies are on the rise, according to the American Bankruptcy Institute, a Washington, D.C.-based organization that provides research and analysis on bankruptcy matters to the legal community. According to the institute, from June 1991 to June 1992, 972,490 businesses and individuals filed for bankruptcy. The number represents a 10.5 percent increase over the previous 12 months.

"While bankruptcy used to be something to fear, today it can mean a fresh start when debts have become unbearable," writes Robert L. Davidson III in the preface of his book, *The Small Business Bankruptcy Kit*, published by John Wiley & Sons, Inc.

Many business people, however, maintain that current laws make it too easy for firms or individuals to walk away from debts. And declaring bankruptcy is not painless, of course; it can affect an individual's or a company's credit rating.

Small-business owners who are thinking about filing for bankruptcy protection

are encouraged by bankruptcy experts to learn as much about the process as possible before taking the step.

The 1978 Bankruptcy Act established two forms of legal bankruptcy: Under Chapter 7 liquidation bankruptcy, assets are sold and debts are terminated. Chapter 11 reorganization bankruptcy gives businesses protection from creditors under a court-approved reorganization plan. Both forms of bankruptcy are administered by a federal District Court.

While do-it-yourself approaches to bankruptcy are available, most experts agree that it is wiser to invest in a bankruptcy lawyer or consultant to help you through the process.

Davidson's 141-page paperback sells for \$12.95 and offers advice on how to file for bankruptcy, including a large appendix containing sample bankruptcy forms. Chapters also cover the history, definitions, and types of bankruptcy, as well as who can file for bankruptcy, how claims are filed, and what bankruptcy doesn't solve, such as debts to creditors who were unaware of the bankruptcy proceedings.

Another helpful book is *BANKRUPT:*

A Society Living in the Future (Momentum Books), by James V. McTevia. *BANKRUPT* offers some help in determining when a company or an individual is heading toward financial trouble, and it includes steps to take if bankruptcy is the only alternative. Priced at \$21.95 in hard cover, *BANKRUPT* offers tips on how to get out of financial trouble and how to avoid declaring bankruptcy.

Jane Applegate's *Succeeding in Small Business: The 101 Toughest Problems and How to Solve Them* (Penguin Group) may also be helpful. One chapter covers what you should consider before filing for bankruptcy. Priced at \$12, the book is available in most bookstores.

Like other bankruptcy experts, Claudia King, president of her own bankruptcy-management firm, in Jersey City, N.J., predicts that Chapter 11 bankruptcy filings will continue to increase throughout the 1990s, but she says business owners facing bankruptcy should take heart: "Most people think of Chapter 11 as negative, but it gives a troubled company a second chance so it can reorganize and restructure."

HORTICULTURE

A Growing Concern

I am interested in starting a tree-and-shrub nursery. How do I get information on this venture?

R.P., Middlesex, N.J.

EDUCATION

Tools For Teaching

I am interested in starting a retail business that sells educational supplies. Where can I get more information on this subject?

J.S., Fort Collins, Colo.

There are an estimated 2,000 school-supply stores in the U.S., according to the



The American Association of Nurserymen can provide you with basic information on starting a nursery. The organization also can supply you with a catalog of publications.

The books and pamphlets are from

National School Supply and Equipment Association. A school-supply store is one that deals exclusively in instructional items such as workbooks, reading books, notebooks, pencils, crayons, rulers, and other school supplies.

The school-supply association offers an information kit that contains a list of suppliers and an industry survey that covers sales, profits, types of merchandise, and success level.

The kit costs \$50 and may be obtained by writing or calling the National School Supply and Equipment Association at 8300 Colesville Road, Suite 250, Silver Spring, Md. 20910; (301) 495-0240.

HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102. Writers will be identified only by initials and city. Questions may be edited for space.

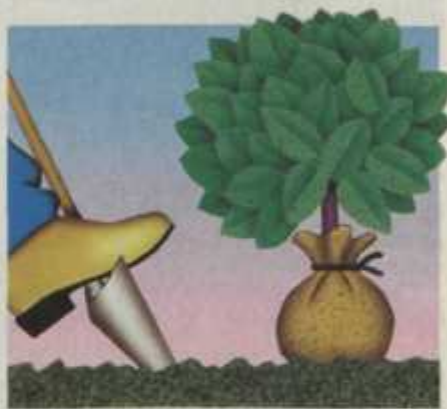
various publishers, including the association.

Topics include recommended inventory levels, capital requirements, management skills, record keeping, and zoning regulations.

Write or call the American Association of Nurserymen at 1250 Eye St., N.W., Suite 500, Washington, D.C. 20005; (202) 789-2900.

There are different regulations from state to state on starting a nursery. For detailed information on the regulations in New Jersey, and for a description of the zoning laws in your area pertaining to the nursery business, you should contact New Jersey's agriculture department at (609) 633-7463.

NB



From the editors of Direct Line

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The Small Business Resource Guide

*What You Need To
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To Your Health

Managing well includes managing your own health; here is advice to help you do that better.

By Marcia J. Pear

Focusing On Aging Eyes

Insight may come with age, but vision tends to deteriorate. One of the most common concerns, eventually faced by almost everyone to some degree, is presbyopia—a word that at its Greek roots means, literally, “old vision.”

Because of presbyopia, a diminishing of the lenses' ability to focus at near distances, many people begin to have difficulty around age 40 reading a newspaper held at arm's length.

In fact, from the moment we're born, our eyes begin to lose their focusing ability. The change occurs because of either a hardening of the lens, which causes it to lose flexibility, or a weakening of the muscles that suspend the eye—nobody knows for certain which is to blame.

John F. Amos, chairman of the American Optometric Association's Clinical Care Center and professor of optometry at the University of Alabama School of Optometry, Birmingham, says the process is inexorable, but it's so gradual that you don't really notice the loss until one day “you find yourself squinting at print you used to read comfortably, getting headaches, and having trouble reading the menu in a dimly lit restaurant.”

Ironically, moderate myopia (near-sightedness) can be an asset at the onset of presbyopia. Explains Amos: “The more myopic you are, the closer your point of focus is to your nose. As presbyopia causes that focal point to recede, it begins to correlate with your working distance [approximately 12 inches for most people], so by pure serendipity, you're able to see clearly without your glasses.”

Conversely, hyperopia, or farsightedness, will aggravate presbyopia, because, Amos says, “you're already using part of your normal focusing ability to accommodate for near vision, which places additional strain on the eyes.”

Practicing proper “visual hygiene” won't prevent presbyopia, but it will help keep your eyes healthy, says Amos. “Make sure you have good lighting and



PHOTO ILLUSTRATION: S.P.A. SCHLING

Need longer arms to see the fine print? It's a fact of life after 40.

that the ergonomics of your workstation aren't contributing to eyestrain. People tend to be “creepers”—they get absorbed in what they're doing, inch up close to the computer screen, and forget to blink. If you can stay back at arm's length, you might keep yourself out of reading glasses for a year or two.”

While most eye doctors assert that there are no strategies to restore strong sight, proponents of vision therapy, such as developmental optometrist Larry Jebrock of Novato, Calif., believe otherwise. Jebrock, who has used vision therapy in his practice for 23 years, says it's not a cure but a process of “brain retraining” that enhances performance by helping people improve the coordination and efficiency of their visual system. He estimates that 8 percent of all optometrists and ophthalmologists in the United States use vision training with their patients.

“As you get older, your whole visual reflex slows down,” says Jebrock. “Vision training helps you maintain fast focusing with good comprehension.” Through a program of exercises that mobilize the entire body and that use color and light to stimulate the nervous system, Jebrock says, “some people can stay out of reading glasses entirely, some can manage with glasses only part of the time, and other people still need their glasses, but may not require as strong a prescription.”

If you need corrective lenses, there is a

spectrum of spectacles available today for presbyopes. As an alternative to reading glasses and the traditional bifocal invented by Benjamin Franklin, PALs—progressive addition lenses—are becoming increasingly popular, according to Dr. George Weinstein, chairman of the department of ophthalmology at West Virginia University in Morgantown.

PALs are “invisible bifocals” that progress in power from far to near, but lack the sharp dividing line of ordinary bifocals. They “take some getting used to,” Weinstein says, “because of the distortion you experience as your viewpoint shifts.”

Over-the-counter reading glasses “are terrific for people without distance-vision problems,” says Weinstein. But Amos warns: “Buyer, beware. Over-the-counter glasses may not be marked in a way that lets you determine what the correction is. Also, you can't adjust for a different magnification in each eye.”

Both Amos and Weinstein express caution about bifocal contact lenses. “Trying to see in two places at once essentially degrades the image you see, so things are never quite as clear” as with glasses, says Weinstein. But Amos adds that someone who's been wearing contacts since age 16 may not want to give them up at age 40.

Whatever option you choose, don't be shortsighted about eye exams, says Weinstein: “People who skip a medical eye examination and buy a cheap pair of glasses are cheating themselves.”

Marcia J. Pear is a writer specializing in health issues and principal of Pear Communications, a San Francisco-based marketing communications firm.

It's Your Money

A monthly survey of strategies and suggestions to help you with your personal finances.

By Peter Weaver

EDUCATION

Eligibility Broadens For College Loans

Congress liberalized the rules on financial aid for students for 1993 so that more middle-income families can qualify.

That's the good news.

The bad news is that certain funds are limited, which means you should start the application process right now to help finance the school year beginning next fall.

Previously, the government-subsidized Stafford Loan Program was limited to lower-income families.

Now, an unsubsidized version of the program is available, and there's no income limit. Interest is based on 91-day Treasury bills, plus 3.1 percent. With subsidized Stafford loans, the government pays the interest while the student is in college. With unsubsidized loans, the family is responsible for all interest payments.

In another move to ease the burden on middle-income families, Congress lightened the financial-aid qualification formula by eliminating one's home as a countable asset. In the past, home equity often disqualified middle-income students.

There is also a change in the popular program known as PLUS (Parent Loans for Undergraduate Students). In the past, there was a \$4,000 annual limit. Now, there is no limit. PLUS loans are available, through banks, to any credit-worthy family. They carry an interest rate of 3.1 percent above 52-week Treasury bills.

In another program, you can borrow from \$1,500 to \$25,000 a year, with 15 years for repayment, through loans offered by ConSern, a nonprofit organization affiliated with the U.S. Chamber of Commerce.

ConSern payments can be deferred for up to four years while the student is in college. Funds may be used to cover all education expenses, including amounts up to \$3,000 for personal computers. For



PHOTO: GORD HAWERMAN-FOCUS INC.

Education loans are more available for middle-income families, but time is growing short for qualifying for the 1993-94 school year.

more information, call 1-800-767-5626.

You can get more detailed information on student loans, grants, scholarships, work-study programs, financial planning, and tax planning for college in "How To Pay For College," a 36-minute video that

comes with a 45-page guidebook, produced by my business partner, John Spiropoulos, president of Information Video, Inc. The video/book package costs \$29.95 plus \$4 for shipping and handling. To order, call 1-800-852-1355.

AIRLINES

Frequent-Flier Points For Package Shipments

How would you like to earn frequent-flier points while you stay on the ground? If you send an airport-to-airport package via TWA's Next Flight Out program to a domestic destination, you'll get 500 miles; if the package is shipped abroad, you'll get 1,000 miles.

For additional points, charge the shipment on your airline-affiliation credit card.

For the moment, TWA is the only airline offering this package-for-points program, but others are looking into it, airline industry sources say.

The big drawback is the cost. Airport-to-airport service can cost two or three times what commercial air-cargo companies and others charge for domestic shipments.

But shippers say the service is competitive on overseas flights.

CREDIT CARDS

Check For Mistakes In Holiday Bills

Because of the high volume of holiday sales, this is the time of year when most billing mistakes are made. So you should check your statements with special care.

"If you spot a mistake," says Federal Trade Commission attorney Stephen L. Cohen, "you should notify the card issuer immediately—in writing"—using a special address, not the billing address. If you phone in your complaint, Cohen says, "you are not protected by a federal law governing credit-card billing errors."

Deduct the amount in dispute from your payment and tell the billing company your name, address, account number, and a description of the problem.

The card issuer, by law, has 30 days to resolve the matter or get back to you with an explanation. Meanwhile, the issuer will charge the contested amount back to the business that billed you.



Peter Weaver is a Washington-based columnist on personal finance.

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For Your Tax File

How to keep taxes from trapping you.

By Albert B. Ellentuck

FRINGE BENEFITS

Paid Parking Loses Some Tax Advantages

Tax-free fringe benefits can provide small business with the best of both worlds. A small corporation or partnership can deduct the amount of a fringe benefit given to an employee, and the employee can exclude that amount from his or her income.

However, a new law, effective Jan. 1, changes the tax treatment of one such benefit—free or reduced-cost parking for employees. The change was passed as part of the Energy Policy Act of 1992, signed by President Bush in October. The change puts a limit of \$155 a month on the amount that the employee can exclude from income.

Previously, under fringe-benefit rules, the entire amount paid by the employer for parking, or the value of this benefit, has been treated as tax-free to the employee.

Under the new law, if a parking space provided for sales manager Jones costs \$225 a month, for example, Jones now will



PHOTO: F.A. SCHLING

Free parking for employees now has a new ceiling for tax purposes.

have to include \$70 a month in his taxable income. The company that employs him, however, can still deduct the full \$225 as compensation to Jones.

This new provision is expected to affect people who work in large metropolitan areas where parking costs are relatively high.

The new law will have an even greater impact on partnerships. Under the provisions in effect before the law was enacted, the term "employee" included any partner, and thus the parking exclusion applied to any partner in the firm.

The new energy law, however, elimi-

nated partner from the definition of employee for purposes of the parking exclusion. This means that although other employees now must pay tax on parking benefits that exceed \$155 per month, partners in a partnership will be taxed on the entire parking benefit.

On the other hand, the partnership can continue to deduct from its taxable income the entire amount of this fringe benefit both for its partners and for its employees.

A 1993 tax bill might reinstate partners as employees for purposes of the free-parking exclusion benefit. Because such a change is not certain, however, small-business partnerships may want to consider alternative nontaxable fringe benefits, such as group term life insurance, accident and health plans, death benefits, cafeteria plans, dependent care, nontaxable awards to employees, subsidized eating facilities, and on-premises athletic facilities.

Before taking such steps, though, a firm should consult its tax adviser. ■

ESTATE PLANNING

Think About Giving Property Before A Tax Ceiling Descends

In *For Your Tax File* last September, we dealt with the advantages of transferring real estate as a gift in a depressed real-estate market. Since property values generally are still depressed, such transfers still make sense. And in view of a recent congressional attempt to reduce the limit on tax-free transfers, it may be wise to speed up any planned gifts of real estate or other types of property.

Under current law, a parent, for example, can provide tax-free \$10,000 in cash or property every year to each child without

paying any gift tax; when a spouse joins in, the limit increases to \$20,000 a year. Also, each individual has a one-time estate and gift tax exemption of \$600,000; for a married couple, the exemption is \$1.2 million. Thus, if a married couple gives \$500,000 worth of property to their child, for example, \$20,000 would be tax-free under the annual exclusion.

In addition, by using \$480,000 of their lifetime exemption, the balance of the gift also would be tax-free. And they still would have \$720,000 of their lifetime exemption left to use later, or at the time of their deaths.

The Long-Term Care Family Security Act of 1992, a bill considered in the 102nd Congress, would have reduced the lifetime exemption to \$200,000 for each individual. This provision was included in the bill as a "revenue raiser" to offset the spending increases that would be required by the rest of the bill. There was such an uproar from small business, however, that this revenue raiser was quickly eliminated from the bill.

Under current rules, tax legislation must be "revenue-neutral," which means that measures that would result in a loss of revenue must be offset by revenue raisers. Despite the strength of the opposition to a reduction in the lifetime exemption, this particular revenue raiser may be considered again soon. Other revenue raisers that may be considered include an increase in estate-tax rates.

If the measure had been enacted, the consequences could have been serious for many taxpayers. In our example, \$80,000 of the gift (\$480,000 minus \$400,000), would have been subject to a gift tax, which would have amounted to \$29,600.

Some estate planners are now thinking that it may be better to use the \$600,000 exemption as soon as possible in case Congress decides to reduce the amount in the future.

Gifts made before the effective date of any change might avoid the effect of such change. Before making any such gifts, however, consult with your tax adviser. ■



Tax lawyer Albert B. Ellentuck is a partner in the Washington law firm of Colton and Boykin. Readers should see tax and legal advisers on specific cases.

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Where I Stand

EXPIRATION OF RULE BAN

- 1.** Should the incoming administration limit the number of new regulations imposed until it determines the overall impact of the pending backlog of new rules?

1. Yes
2. No
3. Undecided

- 2.** Should the incoming administration insist that federal agencies weigh the expected benefits of new rules against their projected costs?

1. Yes
2. No
3. Undecided

- 3.** Should Congress pass legislation requiring that economic-impact studies accompany legislative and regulatory proposals?

1. Yes
2. No
3. Undecided

Results of this poll, which is related to the Jan. 20 expiration of the Bush administration's ban on new regulations, will be provided to leaders of the incoming administration and the new Congress.

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- 4.** What area will see the most regulatory activity under the Clinton administration?

1. Workplace health and safety
2. Environment
3. Employee benefits
4. Other

- 5.** Would you prefer increased federal penalties for failure to comply with regulations or greater federal-agency oversight of business to help it comply with regulations?

1. Increased penalties
2. Greater oversight



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POLL RESULTS

Views On Health Insurance

By Roger Thompson

Given a choice between a government-mandated or government-financed health plan and the one they currently have, an overwhelming majority of small-company owners said they prefer their existing plans.

Readers expressed their views on health-insurance issues in response to questions posed in the October Where I Stand, a monthly poll of *Nation's Business* readers. Ninety percent of the respondents were with companies that had fewer than 100 workers.

Results are sent to top officials in the White House and Congress.

Nearly half of the respondents said they buy their health plans directly from commercial insurance companies, and one-fourth buy their plans from Blue Cross and Blue Shield. Thirteen percent said they purchase their health plans

through business or trade associations.

The survey revealed that nearly half of the respondents have changed health plans two or more times over the past five years. One in four had made no change in five years, and an equal percentage had changed health-insurance coverage just once. From the workers' point of view, the benefits offered by the companies' health plans are of slightly greater concern than the amount they pay for coverage, the respondents said.

While managed care has been promoted as a means of cost control for a number of years, half of the respondents either had no opinion or had a negative opinion about the effectiveness of managed care in restraining costs.

President-elect Clinton has promised to make health-care reform a priority of his administration. Although he once advo-

Respondents to our Where I Stand poll oppose federally mandated or financed health insurance.



PHOTO: SPUR, BARTON-DE-STOCK MARKET

cated a "play-or-pay" mandate that would require all businesses to purchase health insurance or pay a payroll tax to support a federal program, he abandoned that position late in the campaign.

Clinton now advocates a federal mandate that all employers provide health insurance, but he also favors "substantial financial assistance through tax credits" to soften the financial blow to struggling small businesses.

While no details of his plan have been announced, Clinton has said that the employer mandate should be phased in only after substantial cost controls have been put into place.

As a candidate, Clinton repeatedly attacked big insurance companies for failure to address cost containment and universal coverage. He branded them as an obstacle to reform.

But in an about-face on past policies, the nation's leading health-insurance association in early December called for new federal laws that would require coverage of every American, define a basic health plan, and restrain costs by capping the tax break available for the purchase of health insurance.

The board of directors of the Health Insurance Association of America, representing 270 private insurers, said it reversed its longstanding policy against government intervention into the marketplace because "the insurance industry itself needs reform."

The industry's sweeping policy changes put it more in line with proposals favored by Clinton, thus boosting the chances for major health reforms moving through Congress.

HEALTH INSURANCE

What is most important to your company's workers?	1. The amount of the deductible for a basic plan	11%
	2. Their monthly premium for a basic plan	42%
	3. The benefits offered	47%
How do you view managed care as a means to control costs?	1. Positively	47%
	2. Negatively	20%
	3. Undecided	33%
If you had these choices, which would you prefer?	1. My existing health plan	72%
	2. A federally mandated play-or-pay option	7%
	3. Federally financed national health insurance	21%
How many times in the past five years have you changed health plans?	1. Once	27%
	2. Twice	26%
	3. Three or more times	19%
	4. No change	28%
Where does your company buy its health insurance?	1. From Blue Cross and Blue Shield	26%
	2. From a commercial insurance company	48%
	3. Through a business or trade association	13%
	4. Other	12%
	5. Don't know	1%

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Editorial

The Two Agendas Facing The New Congress

The 103rd Congress will have two agendas.

One will be the standard legislative calendar of proposed new laws and revisions to existing laws, with President Clinton's proposals the focus of this report.

The other will deal with the internal changes that the leadership and rank-and-file of Congress now believe are necessary to improve the organization, efficiency, and, they hope, the public image of the legislative branch.

Preliminary work toward those goals is under way. The major effort is centered in the newly created Joint Committee on the Organization of Congress, a bipartisan reform panel. Other formal and informal entities within and outside Congress have begun similar studies, and most of their principal recommendations will probably be considered by the joint committee.

The immediate cause of this interest in congressional reform is the low public esteem to which Congress fell during 1992, primarily as a result of the revelation that many members of the House of Representatives had been bouncing checks at its bank over extended periods. That was followed by investigations, still going on, of such activities as fraud and drug sales in the House Post Office. Charges of ethics violations and sexual harassment against some senators have contributed to Capitol Hill's problems.

Even before those triggers, there was a growing national sense of a Congress more concerned with the political survival and perquisites of its members than with the national interest.

The joint committee has begun studying many proposals from many sources on ways to improve the workings of the legislative branch of government. Specific areas of committee interest include the authority of the leadership, committee structure and jurisdiction, size of the congressional work force, and ways to improve the heart of the congressional

mission—the legislative process itself.

Questions the panel is addressing include how many committees and subcommittees Congress needs and how many one member can serve effectively.

Also being explored: Does the 535-member Congress really need 11,500 employees?

Although the committee will deal with such direct matters bearing on the work of the Congress, it will also be under pressure to address other reforms advocated inside and outside the Congress.

Among them are the extent to which the legislative branch should be subject to the mandates that it places on the private workplace.

This issue has been a source of intense irritation to business people laboring under the impact of government regulations that often threaten the viability of their enterprises.

Nearly 92 percent of readers respond-

ing to a Where I Stand poll in this magazine early in 1992 opposed a congressional exemption from federal regulations.

Even if the many political pressures now driving congressional reform were not present, the many sweeping changes under way throughout the world would, by themselves, make this an appropriate time to look at how improvements can be made in the way Congress operates.

The Cold War is over. Economic relationships, rather than military conflict among the major powers, will be the major international concern. Congress needs to get itself into shape to meet the many challenges—economic, fiscal, educational, and technological, to name a few—that the nation will face as it prepares for the new world of the 21st century.

Those considerations alone would justify a full review of congressional procedures with the goal of making the legislative branch more efficient. It is unfortunate that scandal and public distrust are the principal motivating factors behind the current reappraisal, but that's often the way reform comes about in Washington.



PHOTO: TERRY ABE

The legislative program advocated by President Clinton and Vice President Gore in their campaign will form one agenda for congressional leaders, including Sens. Robert Dole (at microphone) and George Mitchell.

Free-Spirited Enterprise

By Janet L. Willen

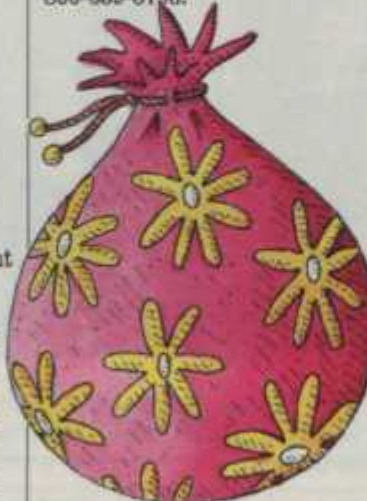
Wrap It Up

When you want a gift package to last as long as the gift, consider using **Totely Cool** gift bags.

Each bag, from **Totely Cool**, of Chula Vista, Calif., is an all-cotton, washable, reusable tote bag with a drawstring closure.

Bags come in two sizes—8 inches by 10 inches, which retails for \$4.50 each, and 10 inches by 12 inches, at \$5.50. Several colorful designs are available.

The manufacturer calls the bags "earth friendly" because there's no gift wrap to discard. For more information, call 1-800-659-6796.



Lest You Forget

You might never forget a sales meeting, but how are you when it comes to birthdays?

Boone & Sons Jewelers, of Washington, D.C., offers its regular customers a "Special Occasion Reminder Service" to remind them of the red-letter days they want to acknowledge.

The Fat Of The Land

The holidays are behind us, and that means one thing—time to diet.

Before you put your fork down, though, you might want to take a reading with an **Accu-Measure**. The device, from **Accu-Measure Inc.**, of Parker, Colo., is for measuring body-fat content.

To use **Accu-Measure**, you grasp the calipers around a fold of fat above the hipbone. Press with your thumb until you hear a click. Then compare your measurement on the **Accu-Measure** inch/millimeter scale with the **Body Fat Interpretation Chart** to see if your body-fat percentage falls into the lean, ideal, average, or overly fat category.

The **Accu-Measure** costs \$19.95 plus \$3 shipping and handling. For more information, call 1-800-866-2727.



Customers fill in the important dates on a form. Then the store sends them a notice a month or so before the big day. It may come as no surprise that the store also offers gift ideas.



Alarming Developments

You don't have to open your mouth to scream. Some new crime-prevention products do it for you.

Sports PAAL, from **Quorum International Ltd.**, of Scottsdale, Ariz., looks like a bright yellow palm-size radio, but it's a personal-attack alarm.

Quorum developed the alarm with outdoor enthusiasts in mind. The weather-proof gadget has a clip so it can be attached to a belt.

A pin controls the battery-powered device. Remove the pin, and PAAL gives off a piercing whistle. The alarm sounds for up to two hours on a fresh 9-volt battery or until the pin is replaced. Cost: \$32. For more information, call (602) 951-6990.

A similar device appears in *Essentials for the Interna-*

tional Traveler, the catalog from **Magellan's**, of Santa Barbara, Calif. Called the **SOS Shri! Alarm**, the 4-inch-long, two-ounce device is an aerosol container that works on air pressure. Press the metal cap, and the alarm sounds a loud, piercing shriek. The alarm is good for 20 to 25 blasts of about one minute each. Cost: \$9.85 plus \$2.75 shipping.

Magellan's catalog offers about 400 other safety gadgets and tools for travelers. For more information, call 1-800-962-4943.

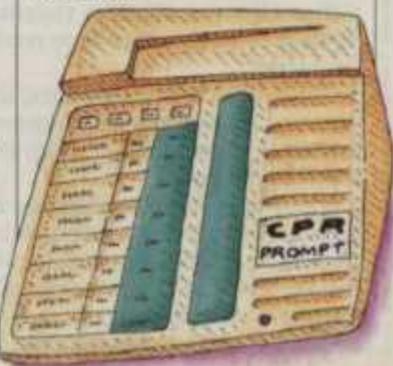
Emergency Aid

Perhaps you've been trained in cardiopulmonary resuscitation (CPR) procedures, but will you remember what to do in an emergency?

CPR Prompt was designed to help. The battery-operated device uses an electronic voice to brief CPR-trained people in the emergency procedures.

The manufacturer, **CPR Prompt**, of Springfield, Mass., recommends hanging the portable device in a visible location where people tend to congregate. In an emergency, the rescuer removes the unit and keys in the victim's age category. Then the simulated voice takes over, guiding the rescuer in determining the victim's condition, which determines the kind of instruction.

The unit costs \$295. For more information, call (413) 734-2825.

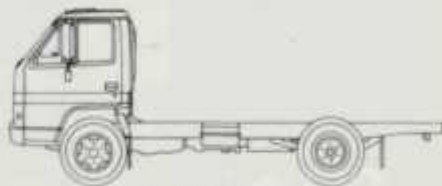


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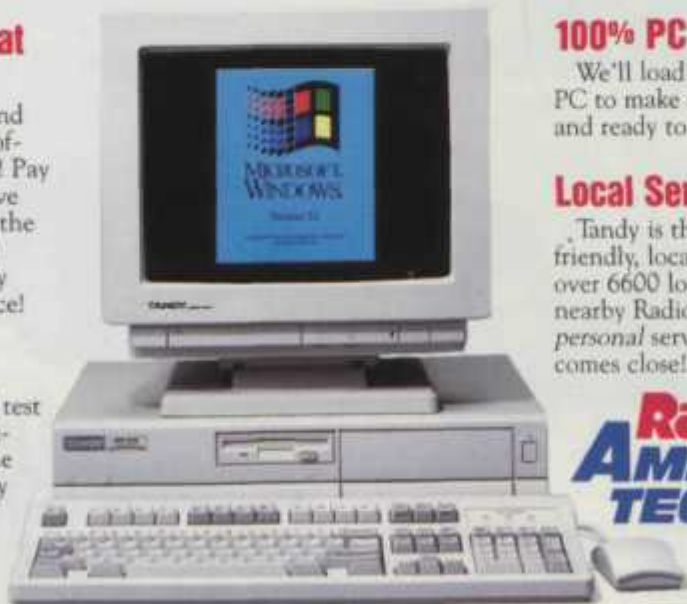
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